Semester VI

16CMU403A	**INTERNATIONAL BUSINESS**	**L**	**T**	**P**	**C**
		6	**-**	**-**	**4**

Course Objective

The objective of the course is to familiarize the students with the concepts, importance and dynamics of international business and India's involvement with global business. The course also seeks to provide theoretical foundations of international business to the extent these are relevant to the global business operations and developments.

Learning Outcome

In olden days restrictions, regulations and other barriers prevented business to take risks. Today, the whole world is open. Duties, license, quotas and other investment limitations have gradually been eliminated. Anyone can do business in any part of the world. The aspiring international businessman can go to anywhere and explore opportunities.

Unit I

Introduction to International Business: Globalization - Importance in World Economy; Impact of Globalization - International Business vs. Domestic Business - Complexities of International Business; Modes of Entry into International Business.

International Business Environment: National and Foreign Environments - Components - Economic, Cultural and Political-Legal Environments

Unit II

Theories of International Trade –Classical Theories- Product Life Cycle theory- Theory of National Competitive Advantage- Commercial Policy Instruments - Tariff and Non-tariff Measures – Difference in Impact on Trade - Types of Tariff and Non Tariff Barriers - Balance of Payment Account and its Components.

International Organizations and Arrangements: WTO – Its Objectives - Principles, Organizational Structure and Functioning – UNCTAD- Commodity and other Trading Agreements (OPEC).

Unit III

a. Regional Economic Co-operation: Forms of Regional Groupings - Integration Efforts among Countries in Europe, North America and Asia (NAFTA, EU , ASEAN and SAARC) .

b. International Financial Environment: International financial system and institutions - IMF and World Bank – Objectives and Functions - Foreign Exchange Markets and Risk Management- Foreign Investments - Types and Flows - Foreign Investment in Indian Perspective

Unit IV

Organisational Structure for International Business Operations - International Business Negotiations. Developments and Issues in International Business - Outsourcing and its Potentials for India - Role of it in International Business - International Business and Ecological Considerations.

Unit V

Foreign Trade Promotion Measures and Organizations in India - Special Economic Zones (SEZs) and Export Oriented Units (EOUs) - Measures for Promoting Foreign Investments into and from India - Indian Joint Ventures and Acquisitions abroad - Financing of Foreign Trade and Payment Terms – Sources of Trade Finance (Banks, Factoring, Forfaiting, Banker's Acceptance and Corporate Guarantee) - Forms of Payment

Suggested Readings

Text Book

1. Charles W.L. Hill & Arun Kumar Jain, *International Business*. New Delhi: McGraw Hill Education

Reference Books

1. Daniels John, D. Lee H. Radenbaugh and David P. Sullivan. *International Business*. Pearson Education
2. Johnson, Derbe., and Colin Turner. *International Business* - Themes & Issues in the Modern Global Economy. London: Roultedge.
3. Sumati Varma, *International Business*, Pearson Education.
4. Cherunilam, Francis. *International Business: Text and Cases.* PHI Learning
5. Michael R. Czinkota. et al. *International Business.* Fortforth: The Dryden Press.
6. Bennett, Roger. *International Business*. Pearson Education.
7. Peng and Srivastav, *Global Business*, Cengage Learning

KARPAGAM ACADEMY OF HIGHER EDUCATION

(Deemed to be University Established Under Section 3 of UGC Act 1956)

Coimbatore – 641 021.

LECTURE PLAN
DEPARTMENT OF COMMERCE

STAFF NAME: P.KALAIVANI
SUBJECT NAME: INTERNATIONAL BUSINESS SUB.CODE:16CMU403A
SEMESTER: IV CLASS: II B.COM

UNIT I

S. No	Lecture Duration (hour)	Topics to be Covered	Support Materials
1	1	Introduction to international business	R1:67-68
2	1	An overview of globalization	R1:68-70
3	1	Importance in world economy	R1:69-73
4	1	Impact of globalization	R1:73-74
5	1	Stages of globalization	R1:68-69
6	1	Pros and cons of globalization	R1:74-75
7	1	Obstacles to globalization	R1:75-76
8	1	International business Vs Domestic business	T1:23.1-23.2
9	1	Complexities of international business	T1:23.3-23.5
10	1	Modes of entry into international business	T1:23.5-23.8
11	1	An overview of international business environment	R2:123-128
12	1	National and foreign environment	R2:202-208
13	1	Components of economic environment	R2:239-245
14	1	Cultural Environments	R2:167-180
15	1	Political Environments	R2:123-152
16	1	Legal Environment	R2:144-146
17	1	**Recapitulation and Important Question Discussion**	
Total No. of Hours planned for Unit – I			**17 Hours**

UNIT II

S.No	Lecture Duration (hour)	Topics to be Covered	Support Materials
1	1	Theories of international trade	R1:43-50
2	1	Classical theory Overview's	R1:43-46
3	1	Product life cycle theory	R1:46-49
4	1	Theory of national competitive advantage	R2:92-93
5	1	Commercial policy instruments	R2:94-98
6	1	Tariff and no-tariff measures	R2:99-105
7	1	Difference in impact on trade	R1:28-30
8	1	Types of tariff and non-tariff barriers	R1:31-35
9	1	Balance of payment account and its components	R1:36-38
10	1	International organizations and arrangements: WTO	R2:449-455
11	1	Objectives & Principles of WTO	R2:450-452
12	1	WTO – Organizational Structure & Functioning	R2:452-454
13	1	UNCTAD – United Nations Conference Trade and Development	R2:454-456
14	1	Commodity & Other Trading Agreements	R2:456-457
15	1	**Recapitulation and Important Question Discussion**	
Total No. of Hours planned for Unit – II			**15 Hours**

UNIT III

S No.	Lecture Duration (hour)	Topics to be Covered	Support Materials
1	1	**REGIONAL ECONOMIC CO-OPERATION**	R1:29-41
2	1	Forms of regional groupings	R1:29-30
3	1	Integration efforts among countries in Europe	R1:30-33
4	1	Integration efforts among North America & Asia	R1:33-35
5	1	Integration efforts among EU,SAARC	R1:35-.37
6	1	**INTERNATIONAL FINANCIAL ENVIRONMENT OVERVIEW**	R2:538-539
7	1	International Financial system and Institutions	R2:539-540
8	1	IMF and World Bank	R2:436-443
9	1	Objectives & Functions of world bank	R2:434-436
10	1	Foreign Exchange Markets	R2:541-549
11	1	Risk Management	R2:541-545
12	1	Foreign Investments	R2:543-547
13	1	Types and flows of foreign investments	R2:587-592
14	1	Foreign investment in India perspective	W1
15	1	Recapitulation and Important Question Discussion	
Total No. of Hours planned for Unit – III			**15 Hours**

UNIT IV

S.No	Lecture Duration (hour)	Topics to be Covered	Support Materials
1	1	**ORGANIZATIONAL STRUCTURE FOR INTERNATIONAL BUSINESS OPERATIONS**	R2:349-358
2	1	International Business Negotiations	R1:157-158
3	1	Development and issues in International Business	R1:159-160
4	1	International Business outsource	R1:159
5	1	International Business potentials for india	R1:160-161
6	1	Role of International Business	W2
7	1	Modes of International Business	W3
8	1	Instruments of international trade control	R2:372-374
9	1	Ecological consideration	R2:420-425
10	1	Related issues in Global Organization design	R2:368-378 R2:362-365
11	1	Centralization Vs Decentralization	R2:426-428
12	1	Use of subsidiary board of director	R2:364-369
13	1	Role of information technology	R2:372-373
14	1	Integrating mechanism	R2:373-374
15	1	Control systems	R2:374-375
16	1	Culture in International Business	R2:377-378
17	1	Managing changes in International Business	R2:378-379
18	1	Level of integration	R2:408-409
19	1	Impact of integration	R2:411-413
20	1	Recapitulation and Important Question Discussion	
Total No. of Hours planned for Unit – IV			**20 Hours**

UNIT V

S.No	Lecture Duration (hour)	Topics to be Covered	Support Materials
1	1	Foreign trade promotion measures and organization in India	R1:178-186
2	1	Special economic zones	R1:178-180
3	1	Exports oriented units	R1:181-183
4	1	Measures for promoting foreign investments into from India	R1:183-184
5	1	Indian joint ventures	R2:587-600
6	1	Acquisitions in abroad	R2:587-600
7	1	Financing of foreign trade	R2:587-588
8	1	Payment terms	R2:588-591
9	1	Sources of trade finance	R2:592-593
10	1	Sources of banks, factoring	R2:593-594
11	1	Sources of forfeiting	R2:593-594
12	1	Bankers acceptance	R2:591-592
13	1	Corporate guarantee	R2:593-595
14	1	Forms of payment	R2:595
15	1	International account & Domestic account	R2:605-606
16	1	International account & Domestic account	R2:605-606
17	1	Indian accounting & the world	R2:623-624
18	1	Accounting for international business	R2:624-625
19	1	Accounting for international business	R2:624-625
20	1	Recapitulation and Important Question Discussion	
Total No. of Hours planned for Unit – V			**12 Hours**
21	1	**Revision:** Discussion of Previous Year ESE Question Papers	
22	1	Discussion of Previous Year ESE Question Papers	
23	1	Discussion of Previous Year ESE Question Papers	**23 Hours**
Total No. of Hours planned for Unit – V& ESE Question paper discussion			**15 Hrs.**

TEXT BOOK:

T1: Charles.W.L. Hill & Arun Jain.(2016).*International Business*. New Delhi: McGraw Hill Education.

REFERNECES

1. Venkateswaran.N (2015). *International Business Management*. New Age International Publishers.
2. Aswathappa (2016). *International Business*.Tata McGraw Hill Education Pvt Ltd.

WEB ADDRESS

W1:https://www.eserviceshelp.in/.../foreign-direct-investment-fdi-an-indian-perspective
W2: journals.iobmresearch.com/index.php/PBR/article/download/564/123
W3: https://www.slideshare.net/parabprathamesh/modes-of-entry-ib

UNIT-I

SYLLABUS

Introduction to International Business: Globalization - Importance in World Economy; Impact of Globalization - International Business vs. Domestic Business - Complexities of International Business; Modes of Entry into International Business.
International Business Environment: National and Foreign Environments - Components - Economic, Cultural and Political-Legal Environments

Introduction and Meaning

International Business comprises all commercial transactions (private and governmental, sales, investments, logistics, and transportation) that take place between two or more regions, countries and nations beyond their political boundaries. Usually, private companies undertake such transactions for profit; governments undertake them for profit and for political reasons. It refers to all those business activities which involve cross border transactions of goods, services, resources between two or more nations. Transaction of economic resources include capital, skills, people etc. for international production of physical goods and services such as finance, banking, insurance, construction etc.

International Business conducts business transactions all over the world. These transactions include the transfer of goods, services, technology, managerial knowledge, and capital to other countries. International business involves exports and imports.

A multinational enterprise (MNE) is a company that has a worldwide approach to markets and production or one with operations in more than a country. An MNE is often called multinational corporation (MNC) or transnational company (TNC).

Areas of study within this topic include differences in legal systems, political systems, economic policy, language, accounting standards, labor standards, living standards, environmental standards, local culture, corporate culture, foreign exchange market, tariffs, import and export regulations, trade agreements, climate, education and many more topics. Each of these factors requires significant changes in how individual business units operate from one country to the next. International Business is also known, called or referred as a Global Business or an International Marketing.

An international business has many options for doing business, it includes,

- Exporting goods and services.
- Giving license to produce goods in the host country.
- Starting a joint venture with a company.
- Opening a branch for producing & distributing goods in the host country.
- Providing managerial services to companies in the host country.

Physical and societal factors of competitive Business and social environment

The conduct of international operations depends on companies' objectives and the means with which they carry them out. The operations affect and are affected by the physical and societal factors and the competitive environment.

Operations of Business and Means of Businesses

Main operation of business is sales expansion, resource acquisition, risk minimization, Diversify their revenue stream.

- **Modes**: importing and exporting, tourism and transportation, licensing and franchising, turnkey operations, management contracts, direct investment and portfolio investments.

- **Functions**: marketing, global manufacturing and supply chain management, accounting, finance, human resources
- **Overlaying alternatives**: choice of countries, organization and control mechanisms

Physical and societal factors of business

- Political policies and legal practices
- Cultural factors
- Economic forces
- Geographical influences

Risk of Business

- Strategich
- Operational risk
- Political risk
- Technological Risk
- Environmental Risk
- Economic Risk
- Financial risk
- Terrorism Risk
- Planning risk

- Price risk
- Customer satisfaction risk
- Mismanagement risks
- Competitive risks

Factors that influenced the growth in globalization of international business

There has been growth in globalization in recent decades due to (at least) the following eight factors:

- Technology is expanding, especially in transportation and communications.
- Governments are removing international business restrictions.
- Institutions provide services to ease the conduct of international business.
- Consumers want to know about foreign goods and services.
- Competition has become more global.
- Political relationships have improved among some major economic powers.
- Countries cooperate more on transnational issues.
- Cross-national cooperation and agreements.

Importance of International Business Education

- Most companies are either international or compete with international companies.
- Modes of operation may differ from those used domestically.

- The best way of conducting business may differ by country.
- An understanding helps you make better career decisions.
- An understanding helps you decide what governmental policies to support.

Managers in international business must understand social science disciplines and how they affect all functional business fields.

Features of International Business

The nature and characteristics or features of international business are:-

- Large scale operations
- Integration of economies
- Dominated by developed countries and MNCs
- Benefits to participating countries
- Keen competition
- Special role of science and technology
- International restrictions
- Sensitive nature

Large scale operations: In international business, all the operations are conducted on a very huge scale. Production and marketing activities are conducted on a large scale. It first sells its goods in the local market. Then the surplus goods are exported.

Integration of economies: International business integrates (combines) the economies of many countries. This is because it uses finance from one country, labour from another country, and infrastructure from another country. It designs the product in one country, produces its parts in many different countries and assembles the product in another country. It sells the product in many countries, i.e. in the international market.

Dominated by developed countries and MNCs: International business is dominated by developed countries and their multinational corporations (MNCs). At present, MNCs from USA, Europe and Japan dominate (fully control) foreign trade. This is because they have large financial and other resources. They also have the best technology and research and development (R & D). They have highly skilled employees and managers because they give very high salaries and other benefits. Therefore, they produce good quality goods and services at low prices. This helps them to capture and dominate the world market.

Benefits to participating countries: International business gives benefits to all participating countries. However, the developed (rich) countries get the maximum benefits. The developing (poor) countries also get benefits. They get foreign capital and technology. They get rapid industrial development. They get more employment opportunities. All this results in economic development of the developing countries. Therefore, developing countries open up their economies through liberal economic policies.

Keen competition: International business has to face keen (too much) competition in the world market. The competition is between unequal partners i.e. developed and developing countries. In this keen competition, developed countries and their MNCs are in a favourable position because they produce superior quality goods and services at very low prices. Developed countries also have many contacts in the world market. So, developing countries find it very difficult to face competition from developed countries.

Special role of science and technology: International business gives a lot of importance to science and technology. Science and Technology (S & T) help the business to have large-scale production. Developed countries use high technologies. Therefore, they dominate global business. International business helps them to transfer such top high-end technologies to the developing countries.

International restrictions: International business faces many restrictions on the inflow and outflow of capital, technology and goods. Many governments do not allow international businesses to enter their countries. They have many trade blocks, tariff barriers, foreign exchange restrictions, etc. All this is harmful to international business.

Sensitive nature: The international business is very sensitive in nature. Any changes in the economic policies, technology, political environment, etc. has a huge impact on it. Therefore, international business must conduct marketing research to find out and study these changes. They must adjust their business activities and adapt accordingly to survive changes.

Trade

Trade refers to buying and selling of goods and services for money or money's worth. It involves transfer or exchange of goods and services for money or money's worth. The manufacturers or producer produces the goods, then moves on to the wholesaler, then to retailer and finally to the ultimate consumer.

Trade is essential for satisfaction of human wants, Trade is conducted not only for the sake of earning profit; it also provides service to the consumers. Trade is an important social activity because the society needs uninterrupted supply of goods forever increasing and ever changing but never ending human wants. Trade has taken birth with the beginning of human life and shall continue as long as human life exists on the earth. It enhances the standard of living of consumers. Thus we can say that trade is a very important social activity.

Differences between International Trade and Domestic Trade

Domestic trade, also known as internal trade or home trade is the exchange of domestic goods within the boundaries of a country. This may be sub-divided into two categories, wholesale and retail. Wholesale trade is concerned with buying goods from manufacturers or dealers or producers in large quantities and selling them in smaller quantities to others who may be retailers or even consumers. Wholesale trade is undertaken by wholesale merchants or wholesale commission agents.

International trade is the exchange of capital, goods, and services across international borders 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, 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.

Scope: Scope of international business is quite wide. It includes not only merchandise exports, but also trade in services, licensing and franchising as well as foreign investments. Domestic business pertains to a limited territory. Though the firm has many business establishments in different locations all the trading activities are inside a single boundary.

Benefits: International business benefits both the nations and firms. Domestic business have lesser benefits when compared to the former.

To the nations: Through international business nations gain by way of earning foreign exchange, more efficient use of domestic resources, greater prospects of growth and creation of employment opportunities. Domestic business as it is conducted locally there would be no much involvement of foreign currency. It can create employment opportunities too and the most important part is business since carried locally and always dealt with local resources the perfection in utilization of the same resources would obviously reap the benefits.

To the firms: The advantages to the firms carrying business globally include prospects for higher profits, greater utilization of production capacities, way out to intense competition in domestic market and improved business vision. Profits in domestic trade are always lesser when compared to the profits of the firms dealing transactions globally.

Market Fluctuations: Firms conducting trade internationally can withstand these situations and huge losses as their operations are wide spread. Though they face losses in one area they may get profits in other areas, this provides for stabilizing during seasonal market fluctuations. Firms carrying business locally have to face this situation which results in low profits and in some cases losses too.

Modes of entry: A firm desirous of entering into international business has several options available to it. These range from exporting/importing to contract manufacturing abroad, licensing and franchising, joint ventures and setting up wholly owned subsidiaries abroad. Each entry mode has its own advantages and disadvantages which the firm needs to take into account while deciding as to which mode of entry it should prefer. Firms going for domestic trade does have the options but not too many as the former one.

To establish business internationally firms initially have to complete many formalities which obviously is a tedious task. But to start a business locally the process is always an easy task. It doesn't require processing any difficult formalities.

Purvey: Providing goods and services as a business within a territory is much easier than doing the same globally. Restrictions such as custom procedures do not bother domestic entities but whereas globally operating firms need to follow complicated customs procedures and trade barriers like tariff etc.

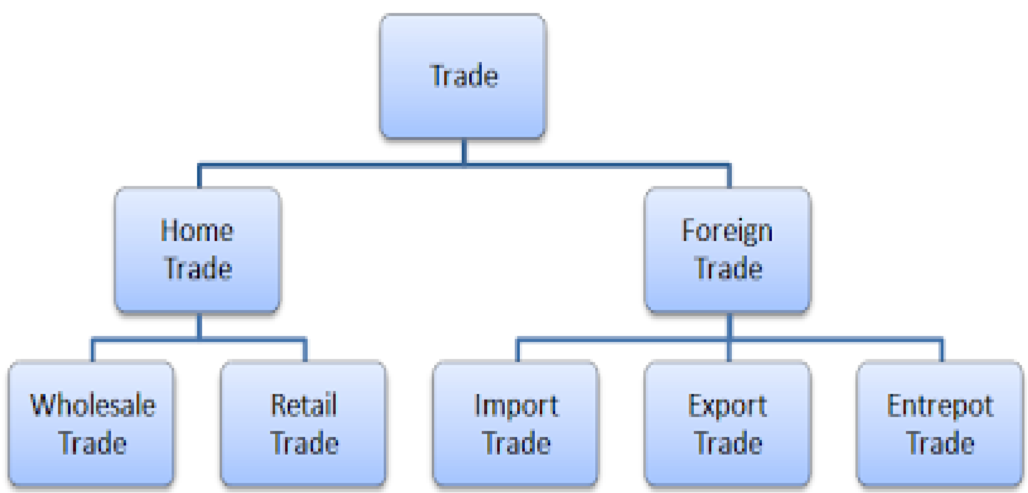
Sharing of Technology: International business provides for sharing of the latest technology that is innovated in various firms across the globe which in consequence will improve the mode and quality of their production.

Political relations: International business obviously improves the political relations among the nations which gives rise to Cross-national cooperation and agreements. Nations co-operate more on transactional issues.

Different Types of Trade

Internal Trade

Internal trade is also known as Home trade. It is conducted within the political and geographical boundaries of a country. It can be at local level, regional level or national level. Hence trade carried on among traders of Delhi, Mumbai, etc. is called home trade. Internal trade can be further sub-divided into two groups, viz.,



- **Wholesale Trade**

It involves buying in large quantities from producers or manufacturers and selling in lots to retailers for resale to consumers. The wholesaler is a link between manufacturer and retailer. A wholesaler occupies prominent position since manufacturers as well as retailers both are dependent upon him. Wholesaler act as a intermediary between producers and retailers.

- **Retail Trade**

It involves buying in smaller lots from the wholesalers and selling in very small quantities to the consumers for personal use. The retailer is the last link in the chain of distribution. He establishes a link between wholesalers and consumers. There are different types of retailers small as well as large. Small scale retailers includes hawkers, pedlars, general shops, etc.

External Trade

External trade also called as Foreign trade. It refers to buying and selling between two or more countries. For instance, If Mr.X who is a trader from Mumbai, sells his goods to Mr.Y another trader from New York then this is an example of foreign trade.

External trade can be further sub-divided into three groups, viz.,

- **Export Trade**

When a trader from home country sells his goods to a trader located in another country, it is called export trade. For e.g. a trader from India sells his goods to a trader located in China.

- **Import Trade**

When a trader in home country obtains or purchase goods from a trader located in another country, it is called import trade. For e.g. a trader from India purchase goods from a trader located in China.

- **Entrepot Trade**

When goods are imported from one country and then re-exported after doing some processing, it is called entrepot trade. In brief, it can be also called as re-export of processed imported goods. For e.g. an indian trader (from India) purchase some raw material or spare parts from a japanese trader (from Japan), then assembles it i.e. convert into finished goods and then re-export to an american trader (in U.S.A).

Domestic Trade

Domestic trade, also known as internal trade or home trade, is the exchange of domestic goods within the boundaries of a country. This may be sub-divided into two categories, wholesale and retail. Wholesale trade is concerned with buying goods from manufacturers or dealers or producers in large quantities and selling them in smaller quantities to others who may be retailers or even consumers. Wholesale trade is undertaken by wholesale merchants or wholesale commission agents.

Retail trade is concerned with the sale of goods in small quantities to consumers. This type of trade is taken care of by retailers. In actual practice, however, manufacturers and wholesalers may also undertake retail distribution of goods to bypass the intermediary retailer, by which they earn higher profits.

Importance and Role

The importance of domestic trade in a country is that it facilitates exchange of goods within the country. By doing this it also makes sure that factors of production reach to the right places so that the economy of the country can grow. By allowing all different types of goods and services to reach to all parts of the country it improves the standard of living of the residents of the country as well as the employment rate of the country. And it helps the growth of an industry by ensuring the availability of raw materials.

It even facilitates foreign trade. Traders from outside the country will have to come in contact with internal traders, because it's not easy to come directly into another country and get the required products.

International Trade

International trade is the exchange of capital, goods, and services across international borders 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.

Industrialization, advanced in technology transportation, globalization, multinational corporations, and outsourcing are all having a major impact on the international trade system. Increasing international trade is crucial to the continuance of globalization. Without international trade, nations would be limited to the goods and services produced within their own borders. International trade is, in principle, not different from domestic trade as the motivation and the behavior of parties involved in a trade do not change fundamentally regardless of whether trade is across a border or not. The main difference is that international trade is typically more costly than domestic trade. The reason is that a border typically imposes additional costs such as tariffs, time costs due to border delays and costs associated with country differences such as language, the legal system or culture.

Another difference between domestic and international trade is that factors of production such as capital and labor are typically more mobile within a country than across countries. Thus international trade is mostly restricted to trade in goods and services, and only to a lesser extent to trade in capital, labor or other factors of production. Trade in goods and services can serve as a substitute for trade in factors of production. Instead of importing a factor of production, a country can import goods that make intensive use of that factor of production and thus embody it. An example is the import of labor-intensive goods by the United States from China. Instead of importing Chinese labor, the United States imports goods that were produced with Chinese labor. One report in 2010 suggested that international trade was increased when a country hosted a network of immigrants, but the trade effect was weakened when the immigrants became assimilated into their new country.

International trade is also a branch of economics, which, together with international finance, forms the larger branch called international economics. Trading is a value-added function: it is the economic process by which a product finds its market, in which specific risks are to be borne by the trader.

Models or Theories of International Business

The following are noted models of international trade.

Adam Smith's model

Adam Smith displays trade taking place on the basis of countries exercising absolute advantage over one another.

Ricardian model

The law of comparative advantage was first proposed by David Ricardo.

The Ricardian model focuses on comparative advantage, which arises due to differences in technology or natural resources. The Ricardian model does not directly consider factor endowments, such as the relative amounts of labor and capital within a country.**The Ricardian model is based on the following assumptions:**

- Labor is the only primary input to production
- The relative ratios of labor at which the production of one good can be traded off for another differ between countries and governments

Heckscher–Ohlin model

In the early 1900s a theory of international trade was developed by two Swedish economists, Eli Heckscher and Bertil Ohlin. This theory has subsequently been known as the Heckscher–Ohlin model (H–O model). The results of the H–O model are that countries will produce and export goods that require resources (factors) which are relatively abundant and import goods that require resources which are in relative short supply.

In the Heckscher–Ohlin model the pattern of international trade is determined by differences in factor endowments. It predicts that countries will export those goods that make intensive use of locally abundant factors and will import goods that make intensive use of factors that are locally scarce. Empirical problems with the H–O model, such as the Leontief paradox, were noted in empirical tests by Wassily Leontief who found that the United States tended to export labor-intensive goods despite having an abundance of capital.

The H–O model makes the following core assumptions:

- Labor and capital flow freely between sectors
- The amount of labor and capital in two countries differ (difference in endowments)

- Technology is the same among countries (a long-term assumption)
- Tastes are the same

Applicability

In 1953, Wassily Leontief published a study in which he tested the validity of the Heckscher-Ohlin theory. The study showed that the United States was more abundant in capital compared to other countries, therefore the United States would export capital-intensive goods and import labor-intensive goods. Leontief found out that the United States' exports were less capital intensive than its imports.

After the appearance of Leontief's paradox, many researchers tried to save the Heckscher-Ohlin theory, either by new methods of measurement, or by new interpretations. Leamer emphasized that Leontief did not interpret H-O theory properly and claimed that with a right interpretation, the paradox did not occur. Brecher and Choudri found that, if Leamer was right, the American workers' consumption per head should be lower than the workers' world average consumption Many textbook writers, including Krugman and Obstfeld and Bowen, Hollander and Viane, are negative about the validity of H-O model. After examining the long history of empirical research, Bowen, Hollander and Viane concluded: "Recent tests of the factor abundance theory [H-O theory and its developed form into many-commodity and many-factor case] that directly examine the H-O-V equations also indicate the rejection of the theory."

In the specific factors model, labor mobility among industries is possible while capital is assumed to be immobile in the short run. Thus, this model can be interpreted as a short-run version of the Heckscher-Ohlin model. The "specific factors" name refers to the assumption that in the short run, specific factors of production such as physical capital are not easily transferable between industries. The theory suggests that if there is an increase in the price of a good, the owners of the factor of production specific to that good will profit in real terms.

Additionally, owners of opposing specific factors of production (i.e., labor and capital) are likely to have opposing agendas when lobbying for controls over immigration of labor. Conversely, both owners of capital and labor profit in real terms from an increase in the capital endowment. This model is ideal for understanding income distribution but awkward for discussing the pattern of trade.

New Trade Theory

New Trade Theory tries to explain empirical elements of trade that comparative advantage-based models above have difficulty with. These include the fact that most trade is between countries with similar factor endowment and productivity levels, and the large amount of multinational production (i.e., foreign direct investment) that exists. New Trade theories are often based on assumptions such as monopolistic competition and increasing returns to scale. One result of these theories is the home-market effect, which asserts that, if an industry tends to cluster in one location because of returns to scale and if that industry faces high transportation costs, the industry will be located in the country with most of its demand, in order to minimize cost.

Although new trade theory can explain the growing trend of trade volumes of intermediate goods, Krugman's explanation depends too much on the strict assumption that all firms are symmetrical, meaning that they all have the same production coefficients. Shiozawa, based on much more general model, succeeded in giving a new explanation on why the traded volume increases for intermediate goods when the transport cost decreases.

Gravity model

The Gravity model of trade presents a more empirical analysis of trading patterns. The gravity model, in its basic form, predicts trade based on the distance between countries and the interaction of the countries' economic sizes. The model mimics the Newtonian law of gravity which also considers distance and physical size between two objects. The model has been proven to be empirically strong through econometric analysis.

Ricardian theory of international trade (modern development)

The Ricardian theory of comparative advantage became a basic constituent of neoclassical trade theory. Any undergraduate course in trade theory includes a presentation of Ricardo's example of a two-commodity, two-country model. A common representation of this model is made using an Edgeworth Box.

This model has been expanded to many-country and many-commodity cases. Major general results were obtained by McKenzie and Jones, including his famous formula. It is a theorem about the possible trade pattern for N-country N-commodity cases.

Contemporary theories

Ricardo's idea was even expanded to the case of continuum of goods by Dornbusch, Fischer, and Samuelson This formulation is employed for example by Matsuyama and others. These theories use a special property that is applicable only for the two-country case.

Neo-Ricardian trade theory

Inspired by Piero Sraffa, a new strand of trade theory emerged and was named neo-Ricardian trade theory. The main contributors include Ian Steedman (1941–) and Stanley Metcalfe (1946–). They have criticized neoclassical international trade theory, namely the Heckscher-Ohlin model on the basis that the notion of capital as primary factor has no method of measuring it before the determination of profit rate (thus trapped in a logical vicious circle). This was a second round of the Cambridge capital controversy, this time in the field of international trade.

The merit of neo-Ricardian trade theory is that input goods are explicitly included. This is in accordance with Sraffa's idea that any commodity is a product made by means of commodities. The limitation of their theory is that the analysis is restricted to small-country cases.

Traded intermediate goods

Ricardian trade theory ordinarily assumes that the labor is the unique input. This is a great deficiency as trade theory, for intermediate goods occupy the major part of the world international trade. Yeats found that 30% of world trade in manufacturing involves intermediate inputs. Bardhan and Jafee found that intermediate inputs occupy 37 to 38% of U.S. imports for the years 1992 and 1997, whereas the percentage of intra-firm trade grew from 43% in 1992 to 52% in 1997.

McKenzie and Jones emphasized the necessity to expand the Ricardian theory to the cases of traded inputs. In a famous comment McKenzie (1954, p. 179) pointed that "A moment's consideration will convince one that Lancashire would be unlikely to produce cotton cloth if the cotton had to be grown in England." Paul Samuelson coined a term Sraffa bonus to name the gains from trade of inputs.

Ricardo-Sraffa trade theory

Economist John S. Chipman observed in his survey that McKenzie stumbled upon the questions of intermediate products and postulated that "introduction of trade in intermediate product necessitates a fundamental alteration in classical analysis". It took many years until Shiozawa succeeded in removing this deficiency. The Ricardian trade theory was now constructed in a form to include intermediate input trade for the most general case of many countries and many goods. Chipman called this the Ricardo-Sraffa trade theory.

Based on an idea of Takahiro Fujimoto, who is a specialist in automobile industry and a philosopher of the international competitiveness, Fujimoto and Shiozawa developed a discussion in which how the factories of the same multi-national firms compete between them across borders. International intra-firm competition reflects a really new aspect of international competition in the age of so-called global competition.

International Production Fragmentation Trade Theory

Fragmentation and International Trade Theory widens the scope for "application of Ricardian comparative advantage". In his chapter entitled Li & Fung, Ltd.: An agent of global production (2001), Cheng used Li & Fung Ltd as a case study in the international production fragmentation trade theory through which producers in different countries are allocated a specialized slice or segment of the value chain of the global production. Allocations are determined based on "technical feasibility" and the ability to keep the lowest final price possible for each product.

Comparative Cost Theory

This theory is developed by a classical economist David Ricardo. According to this theory, the international trade between two countries is possible only if each of them has absolute or comparative cost advantage in the production of at least one commodity. This theory is based upon following assumption

- There are only two countries and two commodities
- There is no governmental intervention in export and import
- Only labor is factor of production. Quantity of labor used gives cost of production
- There is perfect mobility of labor within the country but not between the countries

- There is no cost of transportation between the countries
- The law of constant returns to scale operates in production.
- The units of labor is homogeneous
- The units of each commodity in both countries are homogeneous

According to comparative cost advantage theory of international trade, each country exports the commodity in which it has cost advantage and imports the commodity in which it has cost disadvantage. This theory can be explained as following:

Comparative cost advantage

If a country can produce both commodities with less cost than another country but in different ratio, the country is said to have comparative cost advantage

Country	Labor required to produce clothe	Labor required to produce shoe
Nepal	10	4
India	20	12
ratio	10/20=0.5	4/12=0.33

In the above table, the cost of production of clothe in Nepal is only 50% of cost of production of clothe in India. In case of shoes, the cost of production is only 1/3rd of cost in India. It shows that Nepal can produce both commodities with fewer cots than India. But in order to take advantage, it produces only shoes land let India produce clothe for it. Nepal produces shoes and exports to India. India produces clothe and exports to Nepal. If they do so, both of them can take benefits.

Absolute cost advantage:

If a country can produce a commodity with less cost but has to bear more cost in the production of another commodity than another country then the country is said to have absolute cost advantage. In this case, both of the countries produce and export the commodities in which they have absolute cost advantage.

Country	Labor required to produce clothe	Labor required to produce shoe
Nepal	10	8
India	20	4
ratio	10/20=0.5	8/4=2

In the above table, the cost of production of clothe in Nepal is less than in India. But cost of production of shoes is less in India than in Nepal. In this case, Nepal is said to have absolute cost advantage in production of clothe but absolute cost disadvantage in production of shoes. India is said to have absolute cost advantage in production of shoes but absolute cost disadvantage in production of clothe. Therefore, Nepal produces only clothe and exports to India. India produces only shoes and exports to Nepal. Doing it, both the countries can take benefit.

No cost advantage:

If a country can produce both commodities with less cost than another country but in equal ratio, the country is said to have no cost advantage.

Country	Labor required to produce clothe	Labor required to produce shoe
Nepal	10	4

India	20	8
ratio	10/20=0.5	4/8=0.5

In the above table, Nepal is shown able to produce both commodities with less cost than India in equal ratio. It means Nepal has no cost advantage. It is loss to the Nepal to import any commodity form India. That's why it decides to produce both goods for itself. Therefore, India too produces both goods for itself. Hew is no trade between them.

Criticisms

- This theory is not applicable if there are more than two countries and more than two commodities
- In every country there is more or les government intervention in international trade
- There is cost of transportation form one country to another country
- The units of labor are not homogeneous and the workers are paid more or less in different countries
- There may be increasing or decreasing returns to scale
- Labor is not perfectly mobile within the country too. In the modern era, there is mobility of labor form one country to another
- The commodities produced in the different countries differ in quality, taste, size, quantity etc.

Major Differences between Domestic Trade and International Trade

The following are the major differences between domestic trade and international trade:-

Mobility in Factor of Production

- **Domestic Trade**: Free to move around factors of production like land, labor, capital and labor capital and entrepreneurship from one state to another within the same country
- **International Trade**: Quite restricted

Movement of Goods

- **Domestic trade**: easier to move goods without many restrictions. Maybe need to pay sales tax,etc
- **International Trade**: Restricted due to complicated custom procedures and trade barriers like tariff, quotas or embargo

Usage of different currencies

- **Domestic trade:** same type of currency used
- **International trade:** different countries used different currencies

Broader markets

- **Domestic trade**: limited market due to limits in population, etc
- **International trade**: Broader markets

Language and Cultural Barriers

- **Domestic trade**: speak same language and practice same culture

- **International trade**: Communication challenges due to language and cultural barriers

Cultures

No two cultures are the same and understanding both the social and business culture in another country is the first key to success. Culture defines everything a society does, from its business practices, to its response to advertising and marketing, to negotiating sales. It is important to include research on the culture of the country(s) that you intend to sell to prior to entering their market. Understanding these, often sensitive, areas will mean that you are better prepared when first entering the market. Although the people that you will deal with will not expect you to be completely in tune with the culture, respect and politeness will go a long way.

Level of Competition

The level of competition you will experience in foreign markets is likely to be more dynamic and complex than you experience in domestic markets.

A good strategic tool to use to determine if you are able to compete in a particular international market is the Porters 5 Forces analysis. This tool will assess your supplier power, buyer power, threat of competitor products and the threat of new entrants to the market.

Market Intelligence

The key points to determine when gathering market intelligence on the market you intend to enter are:

- Understanding how the market works
- Who your direct competition is, and
- The best market entry strategy.

It may be difficult to find reliable information and data for some markets, particularly less-developed economies as their statistical agencies may not be as sophisticated as developed market economies. However it is important to gather as much information as you can to successful enter the market.

International Law

Countries determine their laws based on the needs of their citizens not the concerns of foreign companies. By and large, international law is a gentlemen's agreement which is honored, but not always. For example in areas such as intellectual property, although there are many agreements in place, protecting intellectual property can be time consuming and costly.

Technology

The degree of technology can vary substantially in foreign markets. If your product or service requires a high degree of technology sophistication to use or implement, then markets with low levels of technology will not be suitable for your business.

Logistics

Like technology, business infrastructure in foreign markets will be at different levels of development. This may well have an impact on your ability to get your products to that market. It is important to research your new target market and understand how goods are moved within the country before you commit to that market.

Media

Advertising your product and service will of course be an important component of your marketing strategy. It is important to be aware of the types of media available and the kind of media your target market uses to gain information about products and services they wish to buy. Not everyone is connected to the internet nor is every customer able to read and write. This does not mean those markets should be ignored. It does mean that how you advertise and market your products will require an examination of the most appropriate media for your target market. Gains from trade

In economics, gains from trade refer to net benefits to agents from allowing an increase in voluntary trading with each other. In technical terms, it is the increase of consumer surplus plus producer surplus from lower tariffs or otherwise liberalizing trade.

Dynamics

Gains from trade are commonly described as resulting from:

- Specialization in production from division of labor, economies of scale, scope, and agglomeration and relative availability of factor resources in types of output by farms, businesses, location and economies
- A resulting increase in total output possibilities
- Trade through markets from sale of one type of output for other, more highly valued goods.

Market incentives, such as reflected in prices of outputs and inputs, are theorized to attract factors of production, including labor, into activities according to comparative advantage, that is, for which they each have a low opportunity cost. The factor owners then use their increased income from such specialization to buy more-valued goods of which they would otherwise be high-cost producers, hence their gains from trade. The concept may be applied to an entire economy for the alternatives of autarky (no trade) or trade. A measure of total gains from trade is the sum of consumer surplus and producer profits or, more roughly, the increased output from specialization in production with resulting trade. Gains from trade may also refer to net benefits to a country from lowering barriers to trade such as tariffs on imports.

David Ricardo in 1817 first clearly stated and proved the principle of comparative advantage, termed a "fundamental analytical explanation" for the source of gains from trad But from publication of Adam Smith's The Wealth of Nationsin 1776, it was widely argued, that, with competition and absent market distortions, such gains are positive in moving toward free trade and away from autarky or prohibitively high import tariffs. Rigorous early contemporary statements of the conditions under which this proposition holds are found in Samuelson in 1939 and 1962. For the analytically tractable general case of Arrow-Debreu goods, formal proofs came in 1972 for determining the condition of no losers in moving from autarky toward free trade.

It does not follow that no tariffs are the best an economy could do. Rather, a large economy might be able to set taxes and subsidies to its benefit at the expense of other economies. Later results of Kemp and others showed that in an Arrow-Debreu world with a system of lump-sum compensatory mechanisms, corresponding to a customs union for a given subset set of countries, there is a common set of world' tariffs such that no country would be worse off than in the smaller customs union. The suggestion is that if a customs union has advantages for an economy, there is a worldwide customs union that is at least as good for each country in the world.

Measurement of gains from trade

Classical Economist there are two methods to measure the gains from trade:

- International trade increases national income which helps us to get low priced imports;
- Gains are measured in terms of trade. To measure the gains from the trade comparison of cost of production between domestic and foreign countries something is required. But it is very difficult to acquire the knowledge of cost of

production and cost of imports in a domestic country. Therefore terms of trade method is preferable to measure the gains from trade.

Factors affecting gains from trade

There are several factors which determine the gains from international trade:

Differences in cost ratio:

The gains from international trade depends upon the cost ratios of differences in comparative cost ratios in the two trading countries. The smaller the difference between exchange rate and cost of production the smaller the gains from trade and vice versa.

Demand and supply:

If a country has elastic demand and supply gains the gains from trade are higher than if demand and supply are inelastic.

Factor availability:

International trade is based on the specialization and a country specializes depending upon the availability of factors of production. It will increase the domestic cost ratios and thereby the gains from trade.

Size of country:

If a country is small in size it is relatively easy for them to specialize in the production of one commodity and export the surplus production to a large country and can get more gains from international trade. Whereas if a country is large in size then they have to specialize in more than one good because the excess production of only one commodity cannot be exported fully to a small sized country as the demand for good will reduce very frequently. So the smaller the size of the country, the larger the gain from trade.

Terms of Trade:

Gains from trade will depend upon the terms of trade. If the cost ratio and terms of trade are closer to each other more will be the gains from trade of the participating countries.

Productive Efficiency:

An increase in the productive efficiency of a country also determines its gains from trade as it lowers the cost of production and price of the goods. As a result the country importing gains by importing cheap goods.

Static and dynamic gains from trade

The gains from trade can be classified into static and dynamic gains from trades. Static Gains means the increase in social welfare as a result of maximized national output due to optimum utilization of country's factor endowments or resources. Dynamic gains from trade, are those benefits which accelerates economic growth of the participating countries.

Static gains are the result of the operation of the theory of comparative cost in the field of foreign trade. On this principle countries make the optimum use of their available resources so that their national output is greater which also raises the level of social welfare in the country. When there is an introduction of foreign trade in the economy the result is called the static gains from trade.

Dynamic gains from trade relate to economic development of the economy. Specialization of the country for the production of best suited commodities which result in a large volume of quality production which promotes growth. Thus the extension of domestic market to foreign market will accelerate economic growth.

Terms of trade (TOT) refers to the relative price of exports in terms of imports and is defined as the ratio of export prices to import prices. It can be interpreted as the amount of import goods an economy can purchase per unit of export goods.

An improvement of a nation's terms of trade benefits that country in the sense that it can buy more imports for any given level of exports. The terms of trade may be influenced by the exchange rate because a rise in the value of a country's currency lowers the domestic prices of its imports but may not directly affect the prices of the commodities it exports.

Terms of trade (TOT)

History

The term (barter) terms of trade was first coined by the US American economist Frank William Taussig in his 1927 bookInternational Trade. However, an earlier version of the concept can be traced back to the English economist Robert Torrens and his book The Budget: On Commercial and Colonial Policy, published in 1844, as well as to John Stuart Mill's essay Of the Laws of Interchange between Nations; and the Distribution of Gains of Commerce among the Countries of the Commercial World, published in the same year, though allegedly already written in 1829/30.

Definition

Terms of trade (TOT) is a measure of how much imports an economy can get for a unit of export goods. For example, if an economy is only exporting apples and only importing oranges, then the terms of trade are simply the price of apples over the price of oranges. In other words, how many oranges can you get for a unit of apples. Since economies typically export and import many goods, measuring the TOT requires defining price indices for exported and imported goods and comparing the two.

A rise in the prices of exported goods in international markets would increase the TOT, while a rise in the prices of imported goods would decrease it. For example, countries that export oil will see an increase in their TOT when oil prices go up, while the TOT of countries that import oil would decrease.

Two country model CIE economics

In the simplified case of two countries and two commodities, terms of trade is defined as the ratio of the total export revenue a country receives for its export commodity to the total import revenue it pays for its import commodity. In this case the imports of one country are the exports of the other country.

In basic Microeconomics, the terms of trade are usually set in the interval between the opportunity costs for the production of a given good of two countries.

Terms of trade is the ratio of a country's export price index to its import price index, multiplied by 100. The terms of trade measures the rate of exchange of one good or service for another when two countries trade with each other.

Multi-commodity multi-country model

In the more realistic case of many products exchanged between many countries, terms of trade can be calculated using a Laspeyres index. In this case, a nation's terms of trade is the ratio of the Laspeyre price index of exports to the Laspeyre price index of imports. The Laspeyre export index is the current value of the base period exports divided by the base period value of the base period exports. Similarly, the Laspeyres import index is the current value of the base period imports divided by the base period value of the base period imports.

Limitations

Terms of trade should not be used as synonymous with social welfare, or even Pareto economic welfare. Terms of trade calculations do not tell us about the volume of the countries' exports, only relative changes between countries. To understand how a country's social utility changes, it is necessary to consider changes in the volume of trade, changes in productivity and resource allocation, and changes in capital flows.

The price of exports from a country can be heavily influenced by the value of its currency, which can in turn be heavily influenced by the interest rate in that country. If the value of currency of a particular country is increased due to an increase in interest rate one can expect the terms of trade to improve. However, this may not necessarily mean an improved standard of living for the country since an increase in the price of exports perceived by other nations will result in a lower volume of exports. As a result, exporters in the country may actually be struggling to sell their goods in the international market even though they are enjoying a (supposedly) high price.

In the real world of over 200 nations trading hundreds of thousands of products, terms of trade calculations can get very complex. Thus, the possibility of errors is significant.

POSSIBLE QUESTIONS

UNIT-I

PART – B

1. Write short note on legal environment.
2. What are the non-tariff barriers?
3. Define domestic trade
4. Write short note on globalization.
5. Discuss about domestic trade

PART - C

1. Explain the modes of entry into international business
2. Elucidate the cultural environment in detail.
3. Describe the Components of Balance of Payment in detail.
4. Explain Product life cycle Theory and National competitive advance Theory in detail.
5. Examine the salient features and trends in global trade in merchandise.
6. Explain the merits and demerits of globalization.
7. What is meant by International Business? Explain its Nature and Scope in Developing Countries.
8. Describe the Special Problems associated with International Business?
9. Examine the trends in global trade in merchandise.
10. Explain the impact of globalization.

KARPAGAM ACADEMY OF HIGHER EDUCATION

INTERNATIONAL BUSINESS

POSSIBLE QUESTIONS UNIT - I

Questions	Opt 1	Opt 2	Opt 3	Opt 4	Answer
A business that deals with more than two nations is known as _________________	Modern Business	Business.	Domestic trade.	International Business.	International Business.
____________ is the traditional mode of international business.	Importing.	Exporting.	Franchising.	Licensing.	Exporting.
Downloading goods or services from foreign countries for the purpose of manufacturing goods and services can be termed as _____________.	importing.	exporting.	franchising.	licensing.	importing.
A Company doing international business enters into contract with firms in foreign countries to manufacture or assemble the products or services is called as ____________.	licensing.	franchising.	turnkey project.	contract manufacturing.	contract manufacturing.
Constructions, Railway track constructions, Airport maintenance are examples for	management contract.	construction activities.	contract manufacturing.	turnkey project.	turnkey project.
Companies with long term substantial interest in the foreign market normally establish_____________.	joint ventures.	mergers.	contract manufacturing.	fully owned manufacturing facilities	fully owned manufacturing facilities
Implementing manufacturing facilities in host country is called as _____________.	mergers.	contract manufacturing.	management contract.	fully owned manufacturing facilities.	fully owned manufacturing
Ownership and Management getting shared between a foreign firm and local firm is called as _______________.	management contract.	acquisition.	merger.	joint venture.	joint venture.
The team ___________ is sometimes applied to a situation where by firm in one country provides a team of expert managers to an enterprise in another country for a period under contract.	turnkey project.	management contract.	contract manufacturing.	franchising.	management contract.

Taking over of the majority share of a company with all the right to operate the business is called as _____________.	amalgamation.	joint venture.	merger.	acquisition.	acquisition.
First scholar to develop a theory about MNCs is ________________	Stephen Hymer	David Richardo	Paul Samuelson	Gottfried Haberler	Stephen Hymer
Most of the push factors are _____________ reasons.	motivating.	result-oriented.	reactive.	pro-active.	reactive.
______________ are those forces of attraction which take the business to the foreign markets.	Competitive forces.	Push factors.	Internationalization.	Pull factors.	Pull factors.
Globalization of a business will be trigged by ___________ factors.	2	3	4	5	2
The best way to manage the product life cycle of a product is by doing _________________	competition.	international business.	monetary policy.	proper planning	international business.
____________ effects internationalization either in positive or negative aspects	Product life cycle.	Government Policies & Regulations.	Domestic market constraints.	Counter competition.	Government Policies &
The term ___________ refers to the increase in purchase behavior of a customer or consumer seeing that a particular company occupies major part of its sale in foreign	obsolescence.	consumer taste.	swipe-off.	spin-off.	spin-off.
____________ may be defined as the substitution of a domestic source of supply for a foreign source of supply.	Swipe-off effect.	Spin-off effect.	Export Substitution.	Import Substitution.	Import Substitution.
Ethnocentrism is pre-dominantly a ______________ country orientation.	home.	host.	regional.	world.	home.
Polycentrism is ____________ orientation.	home country.	host country.	regional.	world.	host country.
Regiocentrism is ___________ orientation.	home country.	host country.	regional.	world.	regional.
Geocentrism is __________ orientation.	home country.	host country.	regional.	global.	global.
MNC means ________________.	Multi-National Competition	Multi-Nodel Corporation.	Multi-National Corporation.	Multi-Nodel Competition.	Multi-National Corporation
The emergence of global village has been facilitated by the ________ revolution.	regional.	transportation.	business.	communication.	communication.

A global company can leverage its experience to expand it ____________.	resources.	financial operations.	global operations.	competition.	global operations.
A product has ____________ kinds of utility.	3	4	2	5	4
A strategy that is successful in one market may not be successful in another, where the ____________ is very different.	strategy.	competition.	business environment.	government policies.	government policies.
Which one of the following is not a Current account transaction?	Imports payable.	Exports receivable.	Insurance.	Dividend.	Insurance.
The business activity that crosses national boundaries is known as ______________.	national business.	international business.	commercial business.	huge business.	international business.
Indias rank in export is _____________.	2	5	7	10	5
The simplest sense of business activity that transcends national boundaries is known as ______________.	foreign trade.	international Business.	private Business.	government Business.	international Business.
Expand GDP	Gross Developed Product.	Gross domestic Product.	Grade domestic Product.	Grade developing Product.	Gross domestic Product.
The growth of global economy is very essential for healthy growth of an international ________________.	Trade and export.	import and export.	trade and export.	imports.	Trade and export.
Exports are generally classified into traditional product and ______________.	international product.	non-traditional product.	manufacturing products.	cosmetic Products.	cosmetic Products.
How many markets are added under focus scheme?	15	26	28	32	26
Quiet refers to global units of accounts called ________________.	units.	quality.	digits.	quantity.	units.
Exporting is the process of ______________.	hunting.	loss.	earning.	gambling.	earning.
_______________ is the process of earning money by selling products and services in foreign market.	Trade.	Export.	Import.	EXIM.	Export.
Exports and Imports come under the purview of _______________.	Ministry of Finance.	Ministry of Commerce.	Ministry of External Affairs.	Ministry of Home Affairs.	Ministry of Commerce.

The correct components of the 7S framework are ______________.	standards, strategy, style, staff, skills, systems and security.	strategy, synergy, shared value, standardization, skills, staff and structure.	shared values, synergy, systems, strategy, style, staff and structure.	structure, strategy, shared values, style, staff, skills and systems.	shared values, synergy, systems, strategy, style, staff and structure.
With the globalization of markets, the tastes and preferences of consumers world-wide are ______________.	becoming similar to the tastes and preferences of American consumers.	so different that they can be ignored by international organizations.	being encouraged by multinational organizations to become increasingly similar.	converging upon a global norm.	convergin g upon a global norm.
The main advantage of a differentiation strategy in international markets lies in that:	imitators cannot reduce margins	consumers in foreign markets pay less for the same product.	the focus is taken away from price.	it enables brand stretching and extension.	the focus is taken away from price
Which of the following represents a company's effort to identify and categorize groups _______________ of customers and countries according to common characteristics?	Global positioning.	Global targeting.	Global market segmentation .	Global marketing research.	Global market segmentat ion.
A global market leader is an organization which _________________.	has the monopoly over several foreign markets.	is ahead of the competition in terms of global innovation.	is recognized as being ahead of the rest in terms of market share.	has more than 50% global market share.	is ahead of the competiti on in terms of global innovatio
The work of an international marketer is mainly concerned with ______________.	transferring a marketing mix to enter a market in another country.	translating product instructions and advertising messages.	adapting a marketing mix to enter a market in another country.	establishing global brands.	adapting a marketing mix to enter a market in another
Globalization is a challenge of the ___________.	sixties.	seventies.	eighties.	nineties.	nineties.
Domestic economic growth and comparative price level influence ___________.	exports .	imports.	trade.	balance of payment.	imports.

The Crux of International Trade is doing Business ____________	Worldwide	Country wide	Nation wide	Region wide	Worldwide
International Business includes transfer of ____________	Goods	Services	Technology	Goods, Services and Technology	Goods, Services and Technolo
International Business is also called as ________	Imports	Global Estates	Global Business	Exports	Global Business
The Country where goods are produced and exported is called __________ country	home	host	native	source	host
Partnership between two companies for a specific operation is called ___________	joint venture	take over	acquisition	merger	joint venture
The concept of getting increased output based on huge volume is termed as _________	economic production	economies of scale	optimum production	maximum production	economies of scale
Filling domestic markets and then exporting the surplus goods is the beginning of _______	export business	overseas trade	international business	national business	international business
Presently more MNCs are from __________	USA	Germany	Japan	USA, Germany and Japan	USA, Germany and Japan
Selling high quality goods at very low prices is a feature of __________	Reputed Companies	MNCs	Public Companies	PSUs	MNCs
The advantages for the developing countries in International Business are ___________	Industrial Development	Employment	Industrial development and Employment	Urbanization	Industrial development and Employment
Free International trade is a feature of _______	Conservative Economy	Liberal Economy	Communist Economy	Socialist Economy	Liberal Economy
Compared to domestic trade, International trade has ________	More competition	Similar competition	Less competition	No competition	More competition
An important quality required of an International Business is _____________	Accomodation	Assimilation	Adaptability	Acclimatization	Adaptability

UNIT-II

SYLLABUS

Theories of International Trade –Classical Theories- Product Life Cycle theory- Theory of National Competitive Advantage- Commercial Policy Instruments - Tariff and Non-tariff Measures – Difference in Impact on Trade - Types of Tariff and Non Tariff Barriers - Balance of Payment Account and its Components.
International Organizations and Arrangements: WTO – Its Objectives - Principles, Organizational Structure and Functioning – UNCTAD- Commodity and other Trading Agreements (OPEC).

What Is International Trade?

International trade theories are simply different theories to explain international trade. Trade is the concept of exchanging goods and services between two people or entities. *International trade* is then the concept of this exchange between people or entities in two different countries.

People or entities trade because they believe that they benefit from the exchange. They may need or want the goods or services. While at the surface, this many sound very simple, there is a great deal of theory, policy, and business strategy that constitutes international trade.

In this section, you'll learn about the different trade theories that have evolved over the past century and which are most relevant today. Additionally, you'll explore the factors that impact international trade and how businesses and governments use these factors to their respective benefits to promote their interests.

Theories of International Trade

1. **Absolute Advantage**

1776, Adam Smith. A country has an absolute advantage in the production of a product when it is more efficient than any other country in producing it

If two countries specialize in production of different products (in which each has an absolute advantage) and trade with each other, both countries will have more of both products available to them for consumption

2. Comparative Advantage

1817, David Ricardo - Even if one country has an absolute advantage in producing two products over another country, trading with that other country will still yield more output for both countries than if the more efficient producer did everything for themselves.

The country with the absolute advantage in producing both products would still produce both products, but less of the one they would trade for, allowing them to essentially allocate more resources to producing the product that they're ***comparatively*** most efficient at producing

Assumes many things:

Only 2 countries and 2 goods

No transportation costs

No price differences for resources in both countries

Resources can move freely from producing one product to producing another product

Constant returns to scale

Fixed stock of resources

Free trade does not affect production efficiency

No effects of trade on income distribution within a country

There are some descriptions of potential outcomes of relaxing some of these assumptions, but I'll leave this as a thought exercise for you, the reader

3. Heckscher-Ohlin Theory

1919, Eli Heckscher and 1933, Bertil Ohlin – Comparative advantage arises from differences in national ***factor endowments***, such as land, labor, or capital, as opposed to Ricardo's theory which stresses productivity

1953, Wassily Leontief – The Leontief Paradox – theorized that since the U.S. has abundant capital compared to other nations, they would expor capital-intensive goods and import labor-intensive goods. Data showed that was not the case.

Therefore, Ricardo's theory seemed to be more predictive.

However, controlling for technological differences (e.g. eliminating them) does yield a predictive model based on factor endowments

4. The Product Life-Cycle Theory

1960′s, Raymond Vernon – attempts to explain global trade patterns. First, new products are introduced in the United States.Then, as demand grows in the U.S., it also appears in other developed nations, to which the U.S. exports. Then, other developed nations begin to produce the product as well, thus causing U.S. companies to set up production in those countries as well, and limiting exports from the U.S. Then, it all happens again, but this time production comes online in developed nations. Ultimately, the U.S. becomes an importer of the product that was initially introduced within its borders.

Weakness – Not all new products are created in the United States. Many come from other countries first, such as video game consoles from Japan, new wireless phones from Europe, etc. Several new products are introduced in several developed countries simultaneously

5. New Trade Theory

1970′s – Via the achievement of economies of scale, trade can increase the variety of goods available to consumers and decrease the average cost of those goods. Further, the ability to capture economies of scale before anyone else is an important first-mover advantage.

Nations may benefit from trade even when they do not differ in resource endowments or technology

Example – If two nations both want sports cars and minivans, but neither can produce them at a low enough price within their own national markets, trade can allow each to focus on one product, allowing for the achievement of economies of scale that will increase the variety of products in both countries at low enough prices

Example – Airbus spent $14 billion to develop a new super-jumbo jet. Demand is estimated at 400-600 units over the next 20 years, and Airbus will need to sell at least 250 of them to become profitable in this line of business. Boeing estimates the demand to be much lower, and has chosen not to compete. Airbus will have the first mover advantage in this market, and may never see competition in this market segment.

New trade theory is not at odds with Comparative Advantage, since it identifies first mover advantage as an important source of comparative advantage

Debate – should government provide subsidies that spawn industries such that companies can gain first mover advantages? Later chapter (and blog post) covers this.

6. National Competitive Advantage – Porter's Diamond

1990, Michael Porter – seeks to answer the question of why a nation achieves international success in a particular industry. Based on four attributes:

1.Factor endowments

Basic factors – natural resources, climate, location, demographics

Advanced factors – communication infrastructure, sophisticated and skilled labor, research facilities, and technological know-how

Advanced factors are a product of investment by individuals, companies, and governments

Porter argues that advanced factors are the most significant for competitive advantage

2.Demand conditions – if customers at home are sophisticated and demanding, companies will have to produce innovative, high quality products early, which leads to competitive advantage

Relating and supporting industries – If suppliers or related industries exist in the home country that are themselves internationally competitive, this can result in competitive advantage in the new industry.

3.Firm strategy, structure, and rivalry

Different nations are characterized by different management ideologies, which can either help or hurt them in building competitive advantage

If there is a strong domestic rivalry, it helps to create improved efficiency, making those firms better international competitors

Porter also notes that chance (such as new breakthrough innovations) and government policies (such as regulation, investments in education, etc.) can influence the "national diamond"

Balance of payments

The balance of payments (BOP) of a country is the record of all economic transactions between the residents of a country and the rest of the world in a particular period (over a quarter of a year or more commonly over a year). These transactions are made by individuals, firms and government bodies. Thus the balance of payments includes all external visible and non-visible transactions of a country during a given period, usually a year. It represents a summation of country's current demand and supply of the claims on foreign currencies and of foreign claims on its currency.

Balance of payments accounts are an accounting record of all monetary transactions between a country and the rest of the world. These transactions include payments for the country's exports and imports of goods, services, financial capital, and financial transfers. The BOP accounts summarize international transactions for a specific period, usually a year, and are prepared in a single currency, typically the domestic currency for the country concerned. Sources of funds for a nation, such as exports or the receipts of loans and investments, are recorded as positive or surplus items. Uses of funds, such as for imports or to invest in foreign countries, are recorded as negative or deficit items.

When all components of the BOP accounts are included they must sum to zero with no overall surplus or deficit. For example, if a country is importing more than it exports, its trade balance will be in deficit, but the shortfall will have to be counterbalanced in other ways – such as by funds earned from its foreign investments, by running down central bank reserves or by receiving loans from other countries.

While the overall BOP accounts will always balance when all types of payments are included, imbalances are possible on individual elements of the BOP, such as the current account, the capital account excluding the central bank's reserve account, or the sum of the two.

Imbalances in the latter sum can result in surplus countries accumulating wealth, while deficit nations become increasingly indebted.

The term balance of payments often refers to this sum: a country's balance of payments is said to be in surplus (equivalently, the balance of payments is positive) by a specific amount if sources of funds (such as export goods sold and bonds sold) exceed uses of funds (such as paying for imported goods and paying for foreign bonds purchased) by that amount. There is said to be a balance of payments deficit (the balance of payments is said to be negative) if the former are less than the latter. A BOP surplus (or deficit) is accompanied by an accumulation (or decumulation) of foreign exchange reserves by the central bank.

Under a fixed exchange rate system, the central bank accommodates those flows by buying up any net inflow of funds into the country or by providing foreign currency funds to the foreign exchange market to match any international outflow of funds, thus preventing the funds flows from affecting the exchange rate between the country's currency and other currencies.

Then the net change per year in the central bank's foreign exchange reserves is sometimes called the balance of payments surplus or deficit. Alternatives to a fixed exchange rate system include a managed float where some changes of exchange rates are allowed, or at the other extreme a purely floating exchange rate (also known as a purely flexible exchange rate). With a pure float the central bank does not intervene at all to protect or devalue its currency, allowing the rate to be set by the market, and the central bank's foreign exchange reserves do not change, and the balance of payments is always zero.

BALANCE OF TRADE

The commercial balance or net exports (sometimes symbolized as NX), is the difference between the monetary value of exports and imports of output in an economy over a certain period, measured in the currency of that economy. It is the relationship between a nation's imports and exports. A positive balance is known as a trade surplus if it consists of exporting more than is imported; a negative balance is referred to as a trade deficit or, informally, a trade gap. The balance of trade is sometimes divided into a goods and a services balance.

Definition

The balance of trade forms part of the current account, which includes other transactions such as income from the net international investment position as well as international aid. If the current account is in surplus, the country's net international asset position increases correspondingly. Equally, a deficit decreases the net international asset position.

The trade balance is identical to the difference between a country's output and its domestic demand (the difference between what goods a country produces and how many goods it buys from abroad; this does not include money re-spent on foreign stock, nor does it factor in the concept of importing goods to produce for the domestic market).

Measuring the balance of trade can be problematic because of problems with recording and collecting data. As an illustration of this problem, when official data for all the world's countries are added up, exports exceed imports by almost 1%; it appears the world is running a positive balance of trade with itself. This cannot be true, because all transactions involve an equal credit or debit in the account of each nation. The discrepancy is widely believed to be explained by transactions intended to launder money or evade taxes, smuggling and other visibility problems. However, especially for developed countries, accuracy is likely.

Factors that can affect the balance of trade include:

- The cost of production (land, labor, capital, taxes, incentives, etc.) in the exporting economy vis-à-vis those in the importing economy;
- The cost and availability of raw materials, intermediate goods and other inputs;
- Exchange rate movements;

- Multilateral, bilateral and unilateral taxes or restrictions on trade;
- Non-tariff barriers such as environmental, health or safety standards;
- The availability of adequate foreign exchange with which to pay for imports; and
- Prices of goods manufactured at home (influenced by the responsiveness of supply)

In addition, the trade balance is likely to differ across the business cycle. In export-led growth (such as oil and early industrial goods), the balance of trade will improve during an economic expansion. However, with domestic demand led growth (as in the United States and Australia) the trade balance will worsen at the same stage in the business cycle.

Monetary balance of trade is different from physical balance of trade (which is expressed in amount of raw materials, known also as Total Material Consumption). Developed countries usually import a lot of raw materials from developing countries. Typically, these imported materials are transformed into finished products, and might be exported after adding value. Financial trade balance statistics conceal material flow. Most developed countries have a large physical trade deficit, because they have a large ecological footprint. Civil society organizations point out the predatory nature of this imbalance, and campaign for ecological debt repayment.

Since the mid-1980s, the United States has had a growing deficit in tradable goods, especially with Asian nations (China and Japan) which now hold large sums of U.S debt that has funded the consumption. The U.S. has a trade surplus with nations such as Australia. The issue of trade deficits can be complex. Trade deficits generated in tradable goods such as manufactured goods or software may impact domestic employment to different degrees than trade deficits in raw materials.

Economies such as Japan and Germany which have savings surpluses, typically run trade surpluses. China, a high-growth economy, has tended to run trade surpluses. A higher savings rate generally corresponds to a trade surplus. Correspondingly, the U.S. with its lower savings rate has tended to run high trade deficits, especially with Asian nations.

Components

The current account shows the net amount a country is earning if it is in surplus, or spending if it is in deficit. It is the sum of the balance of trade (net earnings on exports minus payments for imports), factor income (earnings on foreign investments minus payments made to foreign investors) and cash transfers. It is called the current account as it covers transactions in the "here and now" – those that don't give rise to future claims.

The Capital Account records the net change in ownership of foreign assets. It includes the reserve account (the foreign exchange market operations of a nation's central bank), along with loans and investments between the country and the rest of world (but not the future regular repayments/dividends that the loans and investments yield; those are earnings and will be recorded in the current account). The term "capital account" is also used in the narrower sense that excludes central bank foreign exchange market operations: Sometimes the reserve account is classified as "below the line" and so not reported as part of the capital account.

Expressed with the broader meaning for the capital account, the BOP identity states that any current account surplus will be balanced by a capital account deficit of equal size – or alternatively a current account deficit will be balanced by a corresponding capital account surplus:

Current account + broadly defined capital account + Balancing item = 0

The balancing item, which may be positive or negative, is simply an amount that accounts for any statistical errors and assures that the current and capital accounts sum to zero. By the principles of double entry accounting, an entry in the current account gives rise to an entry in the capital account, and in aggregate the two accounts automatically balance.

A balance isn't always reflected in reported figures for the current and capital accounts, which might, for example, report a surplus for both accounts, but when this happens it always means something has been missed – most commonly, the operations of the country's central bank – and what has been missed is recorded in the statistical discrepancy term (the balancing item).

An actual balance sheet will typically have numerous sub headings under the principal divisions. For example, entries under Current account might include:

Trade – buying and selling of goods and services

Exports – a credit entry

Imports – a debit entry

Trade balance – the sum of Exports and Imports

Factor income – repayments and dividends from loans and investments

Factor earnings – a credit entry

Factor payments – a debit entry

Factor income balance – the sum of earnings and payments.

Especially in older balance sheets, a common division was between visible and invisible entries. Visible trade recorded imports and exports of physical goods (entries for trade in physical goods excluding services is now often called the merchandise balance). Invisible trade would record international buying and selling of services, and sometimes would be grouped with transfer and factor income as invisible earnings.

The term "balance of payments surplus" (or deficit – a deficit is simply a negative surplus) refers to the sum of the surpluses in the current account and the narrowly defined capital account (excluding changes in central bank reserves). Denoting the balance of payments surplus as BOP surplus, the relevant identity is

BOP surplus = Current account surplus + narrowly defined capital account surplus

Variations in the use of term "balance of payments"

Economics writer J. Orlin Grabbe warns the term balance of payments can be a source of misunderstanding due to divergent expectations about what the term denotes. Grabbe says the term is sometimes misused by people who aren't aware of the accepted meaning, not only in general conversation but in financial publications and the economic literature.

A common source of confusion arises from whether or not the reserve account entry, part of the capital account, is included in the BOP accounts. The reserve account records the activity of the nation's central bank. If it is excluded, the BOP can be in surplus (which implies the central bank is building up foreign exchange reserves) or in deficit (which implies the central bank is running down its reserves or borrowing from abroad).

The term "balance of payments" is sometimes misused by non-economists to mean just relatively narrow parts of the BOP such as the trade deficit, which means excluding parts of the current account and the entire capital account.

Another cause of confusion is the different naming conventions in use. Before 1973 there was no standard way to break down the BOP sheet, with the separation into invisible and visible payments sometimes being the principal divisions. The IMF has their own standards for BOP accounting which is equivalent to the standard definition but uses different nomenclature, in particular with respect to the meaning given to the term capital account.

The IMF definition of Balance of Payment

The International Monetary Fund (IMF) use a particular set of definitions for the BOP accounts, which is also used by the Organisation for Economic Co-operation and Development (OECD), and the United Nations System of National Accounts (SNA).

The main difference in the IMF's terminology is that it uses the term "financial account" to capture transactions that would under alternative definitions be recorded in the capital account. The IMF uses the term capital account to designate a subset of transactions that, according to other usage, form a small part of the overall capital account. The IMF separates these transactions out to form an additional top level division of the BOP accounts. Expressed with the IMF definition, the BOP identity can be written:

Current account + financial account + capital account + balancing item = 0

The IMF uses the term current account with the same meaning as that used by other organizations, although it has its own names for its three leading sub-divisions, which are:

- The goods and services account (the overall trade balance)
- The primary income account (factor income such as from loans and investments)
- The secondary income account (transfer payments)

Imbalances

While the BOP has to balance overall, surpluses or deficits on its individual elements can lead to imbalances between countries. In general there is concern over deficits in the current account. Countries with deficits in their current accounts will build up increasing debt and/or see increased foreign ownership of their assets. The types of deficits that typically raise concern are

- A visible trade deficit where a nation is importing more physical goods than it exports (even if this is balanced by the other components of the current account.)
- An overall current account deficit.
- A basic deficit which is the current account plus foreign direct investment (but excluding other elements of the capital account like short terms loans and the reserve account.)

As discussed in the history section below, the Washington Consensus period saw a swing of opinion towards the view that there is no need to worry about imbalances. Opinion swung back in the opposite direction in the wake of financial crisis of 2007–2009. Mainstream opinion expressed by the leading financial press and economists, international bodies like the IMF – as well as leaders of surplus and deficit countries – has returned to the view that large current account imbalances do matter. Some economists do, however, remain relatively unconcerned about imbalances and there have been assertions, such as by Michael P. Dooley, David Folkerts-Landau and Peter Garber, that nations need to avoid temptation to switch to protectionism as a means to correct imbalances.

Causes of BOP imbalances

There are conflicting views as to the primary cause of BOP imbalances, with much attention on the US which currently has by far the biggest deficit. The conventional view is that current account factors are the primary cause – these include the exchange rate, the government's fiscal deficit, business competitiveness, and private behaviour such as the willingness of consumers to go into debt to finance extra consumption. An alternative view, argued at length in a 2005 paper by Ben Bernanke, is that the primary driver is the capital account, where a global savings glut caused by savers in surplus countries, runs ahead of the available investment opportunities, and is pushed into the US resulting in excess consumption and asset price inflation.

Reserve asset

The US dollar has been the leading reserve asset since the end of the gold standard. In the context of BOP and international monetary systems, the reserve asset is the currency or other store of value that is primarily used by nations for their foreign reserves. BOP imbalances tend to manifest as hoards of the reserve asset being amassed by surplus countries, with deficit countries building debts denominated in the reserve asset or at least depleting their supply. Under a gold standard, the reserve asset for all members of the standard is gold. In the Bretton Woods system, either gold or the U.S. dollar could serve as the reserve asset, though its smooth operation depended on countries apart from the US choosing to keep most of their holdings in dollars.

Following the ending of Bretton Woods, there has been no de jure reserve asset, but the US dollar has remained by far the principal de facto reserve. Global reserves rose sharply in the first decade of the 21st century, partly as a result of the 1997 Asian Financial Crisis, where several nations ran out of foreign currency needed for essential imports and thus had to accept deals on unfavourable terms.

The International Monetary Fund (IMF) estimates that between 2000 to mid-2009, official reserves rose from $1,900bn to $6,800bn. Global reserves had peaked at about $7,500bn in mid-2008, then declined by about $430bn as countries without their own reserve currency used them to shield themselves from the worst effects of the financial crisis. From Feb 2009 global reserves began increasing again to reach close to $9,200bn by the end of 2010.

While the current central role of the dollar does give the US some advantages, such as lower cost of borrowings, it also contributes to the pressure causing the U.S. to run a current account deficit, due to the Triffin dilemma. In a November 2009 article published in Foreign Affairs magazine, economist C. Fred Bergsten argued that Dr Zhou's suggestion or a similar change to the international monetary system would be in the United States' best interests as well as the rest of the world's. Since 2009 there has been a notable increase in the number of new bilateral agreements which enable international trades to be transacted using a currency that isn't a traditional reserve asset, such as the renminbi, as the Settlement currency.

Balance of payments crisis

A BOP crisis, also called a currency crisis, occurs when a nation is unable to pay for essential imports and/or service its debt repayments. Typically, this is accompanied by a rapid decline in the value of the affected nation's currency. Crises are generally preceded by large capital inflows, which are associated at first with rapid economic growth. However a point is reached where overseas investors become concerned about the level of debt their inbound capital is generating, and decide to pull out their funds.

The resulting outbound capital flows are associated with a rapid drop in the value of the affected nation's currency. This causes issues for firms of the affected nation who have received the inbound investments and loans, as the revenue of those firms is typically mostly derived domestically but their debts are often denominated in a reserve currency. Once the nation's government has exhausted its foreign reserves trying to support the value of the domestic currency, its policy options are very limited. It can raise its interest rates to try to prevent further declines in the value of its currency, but while this can help those with debts denominated in foreign currencies, it generally further depresses the local economy.

Balancing mechanisms

One of the three fundamental functions of an international monetary system is to provide mechanisms to correct imbalances.

Broadly speaking, there are three possible methods to correct BOP imbalances, though in practice a mixture including some degree of at least the first two methods tends to be used. These methods are adjustments of exchange rates; adjustment of a nations internal prices along with its levels of demand; and rules based adjustment. Improving productivity and hence competitiveness can also help, as can increasing the desirability of exports through other means, though it is generally assumed a nation is always trying to develop and sell its products to the best of its abilities.

Rebalancing by changing the exchange rate

An upwards shift in the value of a nation's currency relative to others will make a nation's exports less competitive and make imports cheaper and so will tend to correct a current account surplus. It also tends to make investment flows into the capital account less attractive so will help with a surplus there too. Conversely a downward shift in the value of a nation's currency makes it more expensive for its citizens to buy imports and increases the competitiveness of their exports, thus helping to correct a deficit (though the solution often doesn't have a positive impact immediately due to the Marshall–Lerner condition).

Exchange rates can be adjusted by government in a rules based or managed currency regime, and when left to float freely in the market they also tend to change in the direction that will restore balance. When a country is selling more than it imports, the demand for its currency will tend to increase as other countries ultimately need the selling country's currency to make payments for the exports.

The extra demand tends to cause a rise of the currency's price relative to others. When a country is importing more than it exports, the supply of its own currency on the international market tends to increase as it tries to exchange it for foreign currency to pay for its imports, and this extra supply tends to cause the price to fall. BOP effects are not the only market influence on exchange rates however, they are also influenced by differences in national interest rates and by speculation.

Rebalancing by adjusting internal prices and demand

When exchange rates are fixed by a rigid gold standard, or when imbalances exist between members of a currency union such as the Eurozone, the standard approach to correct imbalances is by making changes to the domestic economy. To a large degree, the change is optional for the surplus country, but compulsory for the deficit country. In the case of a gold standard, the mechanism is largely automatic. When a country has a favourable trade balance, as a consequence of selling more than it buys it will experience a net inflow of gold.

The natural effect of this will be to increase the money supply, which leads to inflation and an increase in prices, which then tends to make its goods less competitive and so will decrease its trade surplus. However the nation has the option of taking the gold out of economy thus building up a hoard of gold and retaining its favorable balance of payments.

On the other hand, if a country has an adverse BOP it will experience a net loss of gold, which will automatically have a deflationary effect, unless it chooses to leave the gold standard. Prices will be reduced, making its exports more competitive, and thus correcting the imbalance. While the gold standard is generally considered to have been successful up until 1914, correction by deflation to the degree required by the large imbalances that arose after WWI proved painful, with deflationary policies contributing to prolonged unemployment but not re-establishing balance. Apart from the US most former members had left the gold standard by the mid-1930s.

A possible method for surplus countries such as Germany to contribute to re-balancing efforts when exchange rate adjustment is not suitable, is to increase its level of internal demand (i.e. its spending on goods). While a current account surplus is commonly understood as the excess of earnings over spending, an alternative expression is that it is the excess of savings over investment. That is:

$$CA = NS - NI,$$

Where,

CA = current account,

NS = national savings (private plus government sector),

NI = national investment.

If a nation is earning more than it spends the net effect will be to build up savings, except to the extent that those savings are being used for investment. If consumers can be encouraged to spend more instead of saving; or if the government runs a fiscal deficit to offset private savings; or if the corporate sector divert more of their profits to investment, then any current account surplus will tend to be reduced.

However in 2009 Germany amended its constitution to prohibit running a deficit greater than 0.35% of its GDP and calls to reduce its surplus by increasing demand have not been welcome by officials, adding to fears that the 2010s will not be an easy decade for the euro zone. In their April 2010 world economic outlook report, the IMF presented a study showing how with the right choice of policy options governments can transition out of a sustained current account surplus with no negative effect on growth and with a positive impact on unemployment.

Rules based rebalancing mechanisms

Nations can agree to fix their exchange rates against each other, and then correct any imbalances that arise by rules based and negotiated exchange rate changes and other methods. The Bretton Woods system of fixed but adjustable exchange rates was an example of a rules based system. John Maynard Keynes, one of the architects of the Bretton Woods system had wanted additional rules to encourage surplus countries to share the burden of rebalancing, as he argued that they were in a stronger position to do so and as he regarded their surpluses as negative externalities imposed on the global economy.

Keynes suggested that traditional balancing mechanisms should be supplemented by the threat of confiscation of a portion of excess revenue if the surplus country did not choose to spend it on additional imports. However his ideas were not accepted by the Americans at the time. In 2008 and 2009, American economist Paul Davidson had been promoting his revamped form of Keynes's plan as a possible solution to global imbalances which in his opinion would expand growth all rounds without the downside risk of other rebalancing methods.

History of balance of payments issues

Historically, accurate balance of payments figures were not generally available. However, this did not prevent a number of switches in opinion on questions relating to whether or not a nations government should use policy to encourage a favourable balance.

Pre-1820: mercantilism

Up until the early 19th century, international trade was generally very small in comparison with national output, and was often heavily regulated. In the middle Ages, European trade was typically regulated at municipal level in the interests of security for local industry and for established merchants.

From about the 16th century, mercantilism became the dominant economic theory influencing European rulers, which saw local regulation replaced by national rules aiming to harness the countries' economic output. Measures to promote a trade surplus such as tariffs were generally favored. Power was associated with wealth, and with low levels of growth, nations were best able to accumulate funds either by running trade surpluses or by forcefully confiscating the wealth of others. Rulers sometimes strove to have their countries outsell competitors and so build up a "war chest" of gold.

This era saw low levels of economic growth; average global per capital income is not considered to have significantly risen in the whole 800 years leading up to 1820, and is estimated to have increased on average by less than 0.1% per year between 1700 and 1820. With very low levels of financial integration between nations and with international trade generally making up a low proportion of individual nations' GDP, BOP crises were very rare.

1820–1914: free trade

Gold was the primary reserve asset during the gold standard era.

From the late 18th century, mercantilism was challenged by the ideas of Adam Smith and other economic thinkers favouring free trade. After victory in the Napoleonic wars Great Britain began promoting free trade, unilaterally reducing her trade tariffs. Hoarding of gold was no longer encouraged, and in fact Britain exported more capital as a percentage of her national income than any other creditor nation has since. Great Britain's capital exports further helped to correct global imbalances as they tended to be counter cyclical, rising when Britain's economy went into recession, thus compensating other states for income lost from export of goods.

According to historian Carroll Quigley, Great Britain could afford to act benevolently in the 19th century due to the advantages of her geographical location, its naval power and economic ascendancy as the first nation to enjoy an industrial revolution. A view advanced by economists such as Barry Eichengreen is that the first age of Globalization began with the laying of transatlantic cables in the 1860s, which facilitated a rapid increase in the already growing trade between Britain and America.

Though Current Account controls were still widely used (in fact all industrial nations apart from Great Britain and the Netherlands actually increased their tariffs and quotas in the decades leading up to 1914, though this was motivated more by a desire to protect "infant industries" than to encourage a trade surplus), capital controls were largely absent, and people were generally free to cross international borders without requiring passports.

A gold standard enjoyed wide international participation especially from 1870, further contributing to close economic integration between nations. The period saw substantial global growth, in particular for the volume of international trade which grew tenfold between 1820 and 1870 and then by about 4% annually from 1870 to 1914. BOP crises began to occur, though less frequently than was to be the case for the remainder of the 20th century. From 1880 to 1914, there were approximately 8 BOP crises and 8 twin crises – a twin crises being a BOP crises that coincides with a banking crises.

1914–1945: de-globalization

The favorable economic conditions that had prevailed up until 1914 were shattered by the first world war, and efforts to re-establish them in the 1920s were not successful. Several countries rejoined the gold standard around 1925. But surplus countries didn't "play by the rules", sterilising gold inflows to a much greater degree than had been the case in the pre-war period. Deficit nations such as Great Britain found it harder to adjust by deflation as workers were more enfranchised and unions in particular were able to resist downwards pressure on wages.

During the Great Depression most countries abandoned the gold standard, but imbalances remained an issue and international trade declined sharply. There was a return to mercantilist type "beggar thy neighbour" policies, with countries competitively devaluing their exchange rates, thus effectively competing to export unemployment. There were approximately 16 BOP crises and 15 twin crises (and a comparatively very high level of banking crises.)

1945–1971: Bretton Woods

Following World War II, the Bretton Woods institutions (the International Monetary Fund and World Bank) were set up to support an international monetary system designed to encourage free trade while also offering states options to correct imbalances without having to deflate their economies. Fixed but flexible exchange rates were established, with the system anchored by the dollar which alone remained convertible into gold. The Bretton Woods system ushered in a period of high global growth, known as the Golden Age of Capitalism, however it came under pressure due to the inability or unwillingness of governments to maintain effective capital controls and due to instabilities related to the central role of the dollar.

Imbalances caused gold to flow out of the US and a loss of confidence in the United States ability to supply gold for all future claims by dollar holders resulted in escalating demands to convert dollars, ultimately causing the US to end the convertibility of the dollar into gold, thus ending the Bretton Woods system. The 1945–71 era saw approximately 24 BOP crises and no twin crises for advanced economies, with emerging economies seeing 16 BOP crises and just one twin crises.

1971–2009: transition, Washington Consensus, Bretton Woods II

Manmohan Singh, Former PM of India, showed that the challenges caused by imbalances can be an opportunity when he led his country's successful economic reform programme after the 1991 crisis.

The Bretton Woods system came to an end between 1971 and 1973. There were attempts to repair the system of fixed exchange rates over the next few years, but these were soon abandoned, as were determined efforts for the U.S. to avoid BOP imbalances. Part of the reason was displacement of the previous dominant economic paradigm – Keynesianism – by the Washington Consensus, with economists and economics writers such as Murray Rothbard and Milton Friedman arguing that there was no great need to be concerned about BOP issues.

In the immediate aftermath of the Bretton Woods collapse, countries generally tried to retain some control over their exchange rate by independently managing it, or by intervening in the foreign exchange market as part of a regional bloc, such as the Snake which formed in 1971.

The Snake was a group of European countries who tried to retain stable rates at least with each other; the group eventually evolved into the European Exchange Rate Mechanism (ERM) by 1979. From the mid-1970s however, and especially in the 1980s and early 1990s, many other countries followed the US in liberalising controls on both their capital and current accounts, in adopting a somewhat relaxed attitude to their balance of payments and in allowing the value of their currency to float relatively freely with exchange rates determined mostly by the market.

Developing countries who chose to allow the market to determine their exchange rates would often develop sizeable current account deficits, financed by capital account inflows such as loans and investments, though this often ended in crises when investors lost confidence. The frequency of crises was especially high for developing economies in this era – from 1973 to 1997 emerging economies suffered 57 BOP crises and 21 twin crises. Typically but not always the panic among foreign creditors and investors that preceded the crises in this period was usually triggered by concerns over excess borrowing by the private sector, rather than by a government deficit. For advanced economies, there were 30 BOP crises and 6 banking crises.

A turning point was the 1997 Asian BOP Crisis, where unsympathetic responses by western powers caused policy makers in emerging economies to re-assess the wisdom of relying on the free market; by 1999 the developing world as a whole stopped running current account deficits while the U.S. current account deficit began to rise sharply. This new form of imbalance began to develop in part due to the increasing practice of emerging economies, principally China, in pegging their currency against the dollar, rather than allowing the value to freely float. The resulting state of affairs has been referred to as Bretton Woods II.

According to Alaistair Chan, "At the heart of the imbalance is China's desire to keep the value of the yuan stable against the dollar. Usually, a rising trade surplus leads to a rising value of the currency. A rising currency would make exports more expensive, imports less so, and push the trade surplus towards balance. China circumvents the process by intervening in exchange markets and keeping the value of the yuan depressed."

According to economics writer Martin Wolf, in the eight years leading up to 2007, "three-quarters of the foreign currency reserves accumulated since the beginning of time have been piled up". In contrast to the changed approach within the emerging economies, US policy makers and economists remained relatively unconcerned about BOP imbalances. In the early to mid-1990s, many free market economists and policy makers such as U.S.

Treasury secretary Paul O'Neill and Fed Chairman Alan Greenspan went on record suggesting the growing US deficit was not a major concern. While several emerging economies had intervening to boost their reserves and assist their exporters from the late 1980s, they only began running a net current account surplus after 1999. This was mirrored in the faster growth for the US current account deficit from the same year, with surpluses, deficits and the associated buildup of reserves by the surplus countries reaching record levels by the early 2000s and growing year by year. Some economists such as Kenneth Rogoff and Maurice Obstfeld began warning that the record imbalances would soon need to be addressed from as early as 2001, joined by Nouriel Roubini in 2004, but it was not until about 2007 that their concerns began to be accepted by the majority of economists.

2009 and later: post Washington Consensus

Speaking after the 2009 G-20 London summit, Gordon Brown announced "the Washington Consensus is over". There is now broad agreement that large imbalances between different countries do matter; for example mainstream U.S. economist C. Fred Bergsten has argued the U.S. deficit and the associated large inbound capital flows into the U.S. was one of the causes of the financial crisis of 2007–2010. Since the crisis, government intervention in BOP areas such as the imposition of capital controls or foreign exchange market intervention has become more common and in general attracts less disapproval from economists, international institutions like the IMF and other governments.

In 2007, when the crises began, the global total of yearly BOP imbalances was $1680 billion. On the credit side, the biggest current account surplus was China with approx. $362 billion, followed by Japan at $213bn and Germany at £185 billion, with oil producing countries such as Saudi Arabia also having large surpluses. On the debit side, the US had the biggest current account deficit at over $1100 billion, with the UK, Spain and Australia together accounting for close to a further $300 billion.

While there have been warnings of future cuts in public spending, deficit countries on the whole did not make these in 2009, in fact the opposite happened with increased public spending contributing to recovery as part of global efforts to increase demand. The emphases has instead been on the surplus countries, with the IMF, EU and nations such as the U.S., Brazil and Russia asking them to assist with the adjustments to correct the imbalances.

Economists such as Gregor Irwin and Philip R. Lane have suggested that increased use of pooled reserves could help emerging economies not to require such large reserves and thus have less need for current account surpluses. Writing for the FT in Jan 2009, Gillian Tett says she expects to see policy makers becoming increasingly concerned about exchange rates over the coming year. In June 2009, Olivier Blanchard the chief economist of the IMF wrote that rebalancing the world economy by reducing both sizeable surpluses and deficits will be a requirement for sustained recovery.

In 2008 and 2009, there was some reduction in imbalances, but early indications towards the end of 2009 were that major imbalances such as the U.S. current account deficit are set to begin increasing again.

Japan had allowed her currency to appreciate through 2009, but has only limited scope to contribute to the rebalancing efforts thanks in part to her aging population. The euro used by Germany is allowed to float fairly freely in value, however further appreciation would be problematic for other members of the currency union such as Spain, Greece and Ireland who run large deficits. Therefore Germany has instead been asked to contribute by further promoting internal demand, but this hasn't been welcomed by German officials.

China has been requested to allow the renminbi to appreciate but until 2010 had refused, the position expressed by her premier Wen Jiabao being that by keeping the value of the renmimbi stable against the dollar China has been helping the global recovery, and that calls to let her currency rise in value have been motivated by a desire to hold back China's development. After China reported favourable results for her December 2009 exports however, the Financial Times reported that analysts are optimistic that China will allow some appreciation of her currency around mid-2010.

In April 2010 a Chinese official signalled the government is considering allowing the renminbi to appreciate, but by May analysts were widely reporting the appreciation would likely be delayed due to the falling value of the Euro following the 2010 European sovereign debt crisis. China announced the end of the renminbi's peg to the dollar in June 2010; the move was widely welcomed by markets and helped defuse tension over imbalances prior to the 2010 G-20 Toronto summit. However the renminbi remains managed and the new flexibility means it can move down as well as up in value; two months after the peg ended the renminbi had only appreciated against the dollar by about 0.8%.

By January 2011, the renminbi had appreciated against the dollar by 3.7%, which means it's on track to appreciate in nominal terms by 6% per year. As this reflects a real appreciation of 10% when China's higher inflation is accounted for, the U.S. Treasury once again declined to label China a currency manipulator in their February 2011 report to Congress. However Treasury officials did advise the rate of appreciation was still too slow for the best interests of the global economy.

In February 2011, Moody's analyst Alaistair Chan has predicted that despite a strong case for an upward revaluation, an increased rate of appreciation against the dollar is unlikely in the short term. And as of February 2012, China's currency had been continuing to appreciate for a year and a half, while drawing remarkably little notice.

While some leading surplus countries including China have been taking steps to boost domestic demand, these have not yet been sufficient to rebalance out of their current account surpluses. By June 2010, the U.S. monthly current account deficit had risen back to $50 billion, a level not seen since mid-2008. With the US currently suffering from high unemployment and concerned about taking on additional debt, fears are rising that the US may resort to protectionist measures.

Competitive devaluation after 2009

By September 2010, international tensions relating to imbalances had further increased. Brazil's finance minister Guido Mantega declared that an "international currency war" has broken out, with countries competitively trying to devalue their currency so as to boost exports. Brazil has been one of the few major economies lacking a reserve currency to abstain from significant currency intervention, with the real rising by 25% against the dollar since January 2009.

Some economists such as Barry Eichengreen have argued that competitive devaluation may be a good thing as the net result will effectively be equivalent to expansionary global monetary policy. Others such as Martin Wolf saw risks of tensions further escalating and advocated that coordinated action for addressing imbalances should be agreed on at the November G20 summit.

Commentators largely agreed that little substantive progress was made on imbalances at the November 2010 G20. An IMF report released after the summit warned that without additional progress there is a risk of imbalances approximately doubling to reach pre-crises levels by 2014.

IMF Balance of Payments Manual

The Balance of Payments Manual published by the International Monetary Fund provides accounting standards for balance of payments reporting and analysis for many countries. The Bureau of Economic Analysis adheres to this standard.

The sixth edition was released in prepublication form in December 2008. Its title has been amended to Balance of Payments and International Investment Position Manual to reflect that it covers not only transactions, but also the stocks of the related financial assets and liabilities.

Tariff

A tariff is a tax on imports or exports (an international trade tariff), or a list of prices for such things as rail service, bus routes, and electrical usage (electrical tariff, etc.).

Etymology

The small Spanish town of Tarifa is sometimes credited with being the origin of the word "tariff", since it was the first port in history to charge merchants for the use of its docks The name "Tarifa" itself is derived from the name of the Berber warrior, Tarif ibn Malik. However, other sources assume that the origin of tariff is the Italian word tariffa translated as "list of prices, book of rates," which is derived from the Arabic ta'rif meaning "making known" or "to define".

Customs duty

A customs duty or due is the indirect tax levied on the import or export of goods in international trade. In economic sense, a duty is also a kind of consumption tax. A duty levied on goods being imported is referred to as an import duty. Similarly, a duty levied on exports is called an export duty. A tariff, which is actually a list of commodities along with the leviable rate (amount) of customs duty, is popularly referred to as a customs duty.

In the Kingdom of England, customs duties were typically part of the customary revenue of the king, and therefore did not need parliamentary consent to be levied, unlike excise duty, land tax, or other forms of taxes. This is no longer the case.

Calculation of customs duty

Customs duty is calculated on the determination of the assessable value in case of items for which the duty is levied ad valorem. This is often the transaction value unless a customs officers determines assessable value in accordance with the Harmonized System.

However, for certain items like petroleum and alcohol, customs duty is realized at a specific rate applied to the volume of the import or export consignments.

Harmonized System of Nomenclature

For the purpose of assessment of customs duty, products are given an identification code that has come to be known as the Harmonized System code. This code was developed by the World Customs Organization based in Brussels. A Harmonized System code may be from four to ten digits. For example 17.03 is the HS code for molasses from the extraction or refining of sugar. However, within 17.03, the number 17.03.90 stands for "Molasses (Excluding Cane Molasses)".

Introduction of Harmonized System code in 1990s has largely replaced the Standard International Trade Classification (SITC), though SITC remains in use for statistical purposes. In drawing up the national tariff, the revenue departments often specifies the rate of customs duty with reference to the HS code of the product. In some countries and customs unions, 6-digit HS codes are locally extended to 8 digits or 10 digits for further tariff discrimination: for example the European Union uses its 8-digit CN (Combined Nomenclature) and 10-digit TARIC codes.

Customs authority

A Customs authority in each country is responsible for collecting taxes on the import into or export of goods out of the country. Normally the Customs authority, operating under national law, is authorized to examine cargo in order to ascertain actual description, specification volume or quantity, so that the assessable value and the rate of duty may be correctly determined and applied.

Evasion of customs duty

Evasion of customs duties takes place mainly in two ways. In one, the trader under-declares the value so that the assessable value is lower than actual. In a similar vein, a trader can evade customs duty by understatement of quantity or volume of the product of trade. Evasion of customs duty may take place with or without the collaboration of customs officials. Evasion of customs duty does not necessarily constitute smuggling.

Duty-free goods

Many countries allow a traveller to bring goods into the country duty-free. These goods may be bought at ports and airports or sometimes within one country without attracting the usual government taxes and then brought into another country duty-free. Some countries impose allowances which limit the number or value of duty-free items that one person can bring into the country. These restrictions often apply to tobacco, wine, spirits, cosmetics, gifts and souvenirs. Often foreign diplomats and UN officials are entitled to duty-free goods. Duty-free goods are imported and stocked in what is called a bonded warehouse.

Duty calculation for companies in real life

With many methods and regulations, businesses at times struggle to manage the duties. In addition to difficulties in calculations, there are challenges in analyzing duties; and to opt for duty free options like using a bonded warehouse.

Companies use ERP software to calculate duties automatically to, on one hand, avoid error-prone manual work on duty regulations and formulas and on the other hand, manage and analyze the historically paid duties. Moreover, ERP software offers an option for customs warehouse, introduced to save duty and VAT payments. In addition, the duty deferment and suspension is also taken into consideration.

Economic analysis

Neoclassical economic theorists tend to view tariffs as distortions to the free market. Typical analyses find that tariffs tend to benefit domestic producers and government at the expense of consumers, and that the net welfare effects of a tariff on the importing country are negative. Normative judgments often follow from these findings, namely that it may be disadvantageous for a country to artificially shield an industry from world markets and that it might be better to allow a collapse to take place. Opposition to all tariff Organization aims to reduce tariffs and to avoid countries discriminating between differing countries when applying tariffs. The diagrams to the right show the costs and benefits of imposing a tariff on a good in the domestic economy, Home.

Political analysis

The tariff has been used as a political tool to establish an independent nation; for example, the United States Tariff Act of 1789, signed specifically on July 4, was called the "Second Declaration of Independence" by newspapers because it was intended to be the economic means to achieve the political goal of a sovereign and independent United States.

In modern times, the political impact of tariffs has been seen in a positive and negative sense. The 2002 United States steel tariff imposed a 30% tariff on a variety of imported steel products for a period of three years. American steel producers supported the tariff, but the move was criticised by the Cato Institute.

Unpopular tariffs are known to have ignited social unrest. Example of this are the 1905 Meat riots in Chile that evolved from protests against tariffs applied to the cattle imports from Argentina.

Tariffs within technology strategies

When tariffs are an integral element of a country's technology strategy, the tariffs can be highly effective in helping to increase and maintain the country's economic health. As an integral part of the technology strategy, tariffs are effective in supporting the technology strategy's function of enabling the country to outmaneuver the competition in the acquisition and utilization of technology in order to produce products and provide services that excel at satisfying the customer needs for a competitive advantage in domestic and foreign markets. This is related to the Infant industry argument.

In contrast, in economic theory tariffs are viewed as a primary element in international trade with the function of the tariff being to influence the flow of trade by lowering or raising the price of targeted goods to create what amounts to an artificial competitive advantage.

When tariffs are viewed and used in this fashion, they are addressing the countries and the competitors' respective economic health’s in terms of maximizing or minimizing revenue flow rather than in terms of the ability to generate and maintain a competitive advantage which is the source of the revenue. As a result, the impact of the tariffs on the economic health of the country are at best minimal but often are counter-productive.

A program within the US intelligence community, Project Socrates, that was tasked with addressing America's declining economic competitiveness, determined that countries like China and India were using tariffs as an integral element of their respective technology strategies to rapidly build their countries into economic superpowers. It was also determined that the US, in its early years, had also used tariffs as an integral part of amounted to technology strategies to transform the country into a superpower.

The Importance of Tariff Classification

For Government

For government, a tariff classification system enables "uniform identification of imported and exported goods for purposes of duty and tax collection, enforcement of national laws and international treaties, analysis for economic and business planning, and international trade negotiations."

For Companies

For users of the tariff (importers and exporters of all types and sizes), correct classification is a legal responsibility. Non-compliance can mean shipment delays, increased inspections, fines, and other administrative penalties.

Correct classification often saves money, both in the short and long term. When examining a company's past imports, customs consultants find that overall, too much duty has been paid, indicating that full advantage of provisions of the tariff were not taken. Making use of these provisions requires a precise knowledge of the product to be classified, something that the importer or exporter has, as well as knowledge of the Tariff and the principles of classification, something readily know-able.

Whether goods are eligible for any of the special provisions of the Tariff that allow for lower duty rates usually depends on the use or purpose for which they are being imported, or on the availability of certificates of origin. Again, the importer is in the best position to know these facts.

Verifying the classification decisions of customs brokers and professional classification suppliers is a good way of protecting both compliance records and revenue outlay in the form of duties and taxes. By understanding how the tariff classification process works, importers will be able to work together with their classification provider (usually a customs broker or consultant) to ensure that their goods are classified correctly.

An international "Harmonized System" for the description and classification of goods was created in 1988, and soon after adopted by nations around the world. The broad, core specifics and structure of Harmonized System classifications is universal, with each participating country eligible to add and define specific detail items, and to create and assign rates of duty in any required categories for all classifications.

Optimal tariff

The level of a tariff that maximizes a country's welfare. In a non-distorted small open economy, the optimal tariff is zero. In a large country it is positive, due to its effect on the terms of trade. A bird’s eye view of the stock exchange where optimal tariffs are negotiated between countries. An optimum -- or optimal -- tariff is a tax designed for maximizing the welfare of a country. Optimum tariffs are found in international trade.

Purpose

Tariffs are taxes levied by a country and charged for sales internationally. They increase the country's overall income. Other countries often retaliate by also charging an optimum tariff.

Considerations

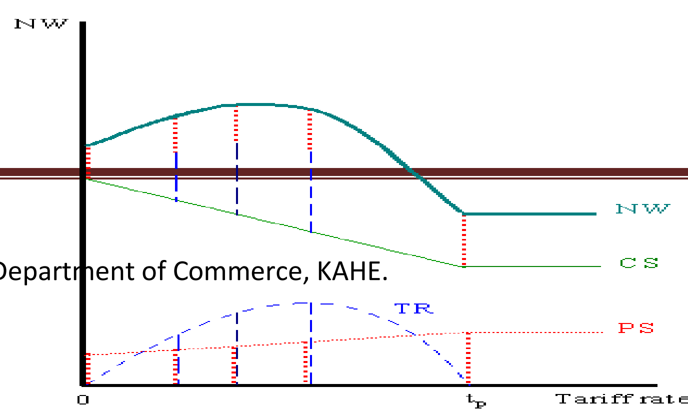
Only large countries use optimum tariffs and benefit from them. Small countries with small economies do not have optimum tariffs. The tariff in this case is considered zero. Large countries using optimum tariffs, however, are considered to have a positive tariff because of the effect on trade.

Effects

While these tariffs were designed to increase a country's wealth, a common effect is a decrease in demand for products offered by the country.

The possibility that a tariff could improve national welfare for a large country in international markets was first noted by Robert Torrens (1844). Since the welfare improvement occurs only if the terms of trade gain exceeds the total deadweight losses, the argument is commonly known as the Terms of Trade Argument for protection.

Economists have studied the conditions under which a tariff will be welfare improving in a variety of perfectly competitive models. This section describes the general results that come from that analysis.



Consider the adjoining diagram plotting the levels of consumer surplus (CS), producer surplus (PS), and tariff revenue (TR) at different tariff rates. The origin corresponds to a zero tariff rate, or free trade. As the tariff is increased from zero consumer surplus falls since the domestic price rises. This is shown by the solid declining (green) CS line. When the tariff becomes prohibitive at tp, the price settles at the autarky price and any further increases in the tariff have no effect upon consumer surplus. Hence the CS line becomes flat above tp.

Producer surplus (PS), the red dotted line, rises as the tariff is increased from 0, however it rises at a lower rate than consumer surplus falls. This occurs because, for an importing country, producer surplus increases are less than the change in consumer surplus for any increase in the tariff. When the prohibitive tariff is reached, again the price settles at the autarky price and any further increases in the tariff rate has no effect upon producer surplus.

Tariff revenue (TR), the blue dashed line, first increases with the increase in the tariff and then decreases for higher tariff rates. This occurs because tariff revenue equals the tariff rate time's imports. As the tariff in increased from zero, imports fall at a slower rate than the increase in the tariff rate, hence revenue rises. Eventually imports begin to fall faster than the tariff rate rises and tariff revenue declines.

Another way to see that tariff revenue must rise then fall with increasing tariffs is to note that when the tariff rate is zero, tariff revenue has to be zero for any level of imports. Also, when the tariff rate is at or above tp, the prohibitive tariff, imports are zero, thus whatever the tariff rate; tariff revenue again must be zero. Somewhere between a zero tariff and the prohibitive tariff, tariff revenue has to be positive. Thus, tariff revenue must rise from zero and then fall back to zero when it reaches tp.

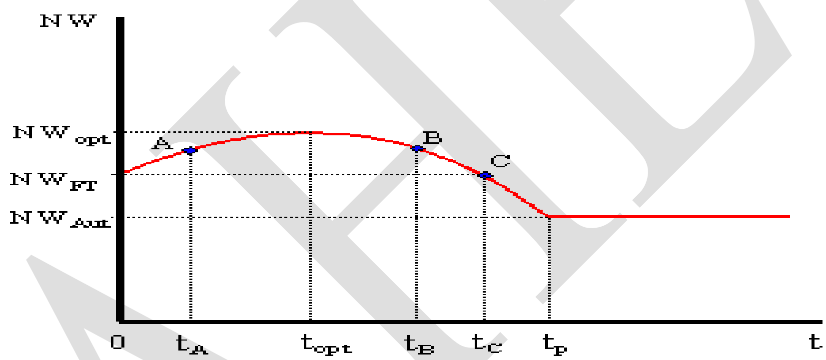
The national welfare level at each tariff rate is defined as the sum of consumer surplus, producer surplus and tariff revenue. The vertical summation of these three curves generates the national welfare curve (NW) given by the thick solid blue-green line. In the diagram, the vertical summation is displayed for five different levels of the tariff rate.

The basic shape of the national welfare line is redrawn in the next diagram. Note that national welfare first rises then falls as the tariff is increased from zero. For one tariff rate (topt), the country can realize the highest level of national welfare (NWopt), one that is higher than that achievable in free trade. We call that tariff rate the "optimal tariff."

If the tariff is raised above the optimal rate, as with an increase from topt to tB, then national welfare will fall. The terms of trade gain, which rises as low tariffs are increased, will begin to fall at a higher tariff rate. Since the deadweight losses continue to rise, both effects contribute to the decline in national welfare. Note, however, that at a tariff level like tB,national welfare still exceeds the free trade level.

Eventually, at even higher tariff rates, national welfare will fall below the free trade level. In the diagram this occurs at tariff rates greater than tC. The higher the tariff is raised, the lower will be the level of imports. At a sufficiently high tariff, imports will be eliminated entirely. The tariff will prohibit trade. At the prohibitive tariff, tp in the diagram, there is no tariff revenue, which implies that the previously positive terms of trade gain is now zero. The only effect of the tariff is the deadweight loss. The economy is effectively in autarky, at least with respect to this one market, hence national welfare is at NWAut. Note that any additional increases in the tariff above tp, will maintain national welfare at NWAut since the market remains at the autarky equilibrium.

The National Welfare Effects of Trade Liberalization for a Large Country. Trade liberalization can be represented by a decrease in the tariff rate on imports into a country. If the country is large in international markets, then the analysis above suggests that the effect on national welfare will depend on the values of the original tariff rate and the liberalized tariff rate.



For example, if the tariff is reduced from topt to tA, then national welfare will fall when the country liberalizes trade in this market. However, if the tariff is reduced from tB to topt, then national welfare will rise when trade liberalization occurs. This implies that trade liberalization is not necessarily welfare improving for a large importing country.

4 Main Types of Disequilibrium in the Balance of Payments | Foreign Trade

Main types of disequilibrium in the balance of payments are: i. Cyclical Disequilibrium ii. Structural Disequilibrium iii. Short-run Disequilibrium iv. Long-run Disequilibrium!

i. Cyclical Disequilibrium:

It occurs on account of trade cycles. Depending upon the different phases of trade cycles like prosperity and depression, demand and other forces vary, causing changes in the terms of trade as well as growth of trade and accordingly a surplus or deficit will result in the balance of payments.

Cyclical disequilibrium in the balance of payments may occur because:

i. Trade cycles follow different paths and patterns in different countries. There are no identical timings and periodicity of occurrence of cycles in different countries.

ii. No identical stabilisation programmes and measures are adopted by different countries.

iii. Income elasticities of demand for imports in different countries are not identical.

iv. Price elasticities of demand for imports differ in different countries.

In short, cyclical fluctuations cause disequilibrium in the balance of payments because of cyclical changes in income, employment, output and price variables. When prices rise during prosperity and fall during a depression, a country which has a highly elastic demand for imports experiences a decline in the value of imports and if it continues its exports further, it will show a surplus in the balance of payments.

Since deficit and surplus alternatively take place during the depression and prosperity phase of a cycle, the balance of payments equilibrium is automatically set forth over the complete cycle.

ii. Structural Disequilibrium:

It emerges on account of structural changes occurring in some sectors of the economy at home or abroad which may alter the demand or supply relations of exports or imports or both. Suppose the foreign demand for India's jute products declines because of some substitutes, then the resources employed by India in the production of jute goods will have to be shifted to some other commodities of export.

If this is not easily possible, India's exports may decline whereas with imports remaining the same, disequilibrium in the balance of payments will arise. Similarly, if the supply condition of export items is changed, i.e., supply is reduced due to crop failure in prime commodities or shortage of raw materials or labour strikes, etc. in the case of manufactured goods, then also exports may decline to that extent and structural disequilibrium in the balance of payments will arise.

Moreover, a shift in demand occurs with the changes in tastes, fashions, habits, income, economic progress, etc. Propensity to import may change as a result. Demand for some imported goods may increase, while that for certain goods may decline leading to a structural change.

Furthermore, structural changes are also produced by variations in the rate of international capital movements. A rise in the inflow of international capital tends to have a direct impact on a country's balance of payments.

iii. Short-run Disequilibrium:

A short-run disequilibrium in a country's balance of payments will be a temporary one, 'lasting for a short period, which may occur once in a while. When a country borrows or lends internationally, it will have short-run disequilibrium in its balance of payments, as these loans are usually for a short period or even if they are for a long duration, they are repayable later on; hence the position will be automatically corrected and poses no serious problem.

As such, a disequilibrium arising from international lending and borrowing activities is perfectly justified. However, a short-run disequilibrium may also emerge if a country's imports exceed its exports in a given year.

This will be a temporary one if it occurs once in a way, because later on, the country will be in a position to correct it easily by creating the required credit surplus by exporting more to offset the deficit. But even this type of disequilibrium in the balance of payments is not justified, because it may pave the way for a long-term disequilibrium.

When such disequilibrium (arising from imports exceeding exports or even vice versa) occurs year after year over a long period, it becomes chronic and may seriously affect the country's economy and its international economic relations. A persistent deficit will tend to deplete its foreign exchange reserves and the country may not be able to raise any more loans from foreigners.

iv. Long-run Disequilibrium:

The long-term disequilibrium thus refers to a deep- rooted, persistent deficit or surplus in the balance of payments of a country. It is secular disequilibrium emerging on account of the chronologically accumulated short--term disequilibria — deficits or surpluses.

It endangers the exchange stability of the country concerned. Especially, a long-term deficit in the balance of payments of a country tends to deplete its foreign exchange reserves and the country may also not be able to raise any more loans from foreigners during such a period of persistent deficits.

In short, true disequilibrium is a long-term phenomenon. It is caused by persistent deep-rooted dynamic changes which slowly take place in the economy over a long period of time. It is caused by changes in dynamic forces/factors such as capital formation, population growth, territorial expansion, technological advancement, innovations, etc.

A newly developing economy, for instance, in its initial stages of growth needs huge investment exceeding its savings. In view of its low capital formation, it has also to import a large amount of its capital requirements from foreign countries and its imports thus tend to exceed its exports. These become a chronic phenomenon. And in the absence of a sufficient inflow of foreign capital in such countries, a secular deficit balance of payments may result.

The World Trade Organization (WTO) and its objectives and functions!

The Uruguay round of GATT (1986-93) gave birth to World Trade Organization. The members of GATT singed on an agreement of Uruguay round in April 1994 in Morocco for establishing a new organization named WTO.

It was officially constituted on January 1, 1995 which took the place of GATT as an effective formal, organization. GATT was an informal organization which regulated world trade since 1948.

Contrary to the temporary nature of GATT, WTO is a permanent organization which has been established on the basis of an international treaty approved by participating countries. It achieved the international status like IMF and IBRD, but it is not an agency of the United Nations Organization (UNO).

Structure:

The WTO has nearly 153 members accounting for over 97% of world trade. Around 30 others are negotiating membership. Decisions are made by the entire membership. This is typically by consensus.

A majority vote is also possible but it has never been used in the WTO and was extremely rare under the WTO's predecessor, GATT. The WTO's agreements have been ratified in all members' parliaments.

The WTO's top level decision-making body is the Ministerial Conferences which meets at least once in every two years. Below this is the General Council (normally ambassadors and heads of delegation in Geneva, but sometimes officials sent from members' capitals) which meets several times a year in the Geneva headquarters. The General Council also meets as the Trade Policy Review Body and the Disputes Settlement Body.

At the next level, the Goods Council, Services Council and Intellectual Property (TRIPs) Council report to the General Council. Numerous specialized committees, working groups and working parties deal with the individual agreements and other areas such as, the environment, development, membership applications and regional trade agreements.

Secretariat:

The WTO secretariat, based in Geneva, has around 600 staff and is headed by a Director-General. Its annual budget is roughly 160 million Swiss Francs. It does not have branch offices outside Geneva. Since decisions are taken by the members themselves, the secretariat does not have the decision making the role that other international bureaucracies are given.

The secretariat s main duties to supply technical support for the various councils and committees and the ministerial conferences, to provide technical assistance for developing countries, to analyze world trade and to explain WTO affairs to the public and media. The secretariat also provides some forms of legal assistance in the dispute settlement process and advises governments wishing to become members of the WTO.

Objectives:

The important objectives of WTO are:

1. To improve the standard of living of people in the member countries.

2. To ensure full employment and broad increase in effective demand.

3. To enlarge production and trade of goods.

4. To increase the trade of services.

5. To ensure optimum utilization of world resources.

6. To protect the environment.

7. To accept the concept of sustainable development.

Functions:

The main functions of WTO are discussed below:

1. To implement rules and provisions related to trade policy review mechanism.

2. To provide a platform to member countries to decide future strategies related to trade and tariff.

3. To provide facilities for implementation, administration and operation of multilateral and bilateral agreements of the world trade.

4. To administer the rules and processes related to dispute settlement.

5. To ensure the optimum use of world resources.

6. To assist international organizations such as, IMF and IBRD for establishing coherence in Universal Economic Policy determination.

WTO Agreements:

The WTO's rule and the agreements are the result of negotiations between the members. The current sets were the outcome to the 1986-93 Uruguay Round negotiations which included a major revision of the original General Agreement on Tariffs and Trade (GATI).

GATT is now the WTO's principal rule-book for trade in goods. The Uruguay Round also created new rules for dealing with trade in services, relevant aspects of intellectual property, dispute settlement and trade policy reviews.

The complete set runs to some 30,000 pages consisting of about 30 agreements and separate commitments (called schedules) made by individual members in specific areas such as, lower customs duty rates and services market-opening.

Through these agreements, WTO members operate a non-discriminatory trading system that spells out their rights and their obligations. Each country receives guarantees that its exports will be treated fairly and consistently in other countries' markets. Each country promises to do the same for imports into its own market. The system also gives developing countries some flexibility in implementing their commitments.

(a) Goods:

It all began with trade in goods. From 1947 to 1994, GATT was the forum for negotiating lower customs duty rates and other trade barriers; the text of the General Agreement spelt out important, rules, particularly non-discriminations since 1995, the updated GATT has become the WTO s umbrella agreement for trade in goods.

It has annexes dealing with specific sectors such as, agriculture and textiles and with specific issues such as, state trading, product standards, subsidies and action taken against dumping.

(b) Services:

Banks, insurance firms, telecommunication companies, tour operators, hotel chains and transport companies looking to do business abroad can now enjoy the same principles of free and fair that originally only applied to trade in goods.

These principles appear in the new General Agreement on Trade in Services (GATS). WTO members have also made individual commitments under GATS stating which of their services sectors, they are willing to open for foreign competition and how open those markets are.

(c) Intellectual Property:

The WTO's intellectual property agreement amounts to rules for trade and investment in ideas and creativity. The rules state how copyrights, patents, trademarks, geographical names used to identify products, industrial designs, integrated circuit layout designs and undisclosed information such as trade secrets "intellectual property" should be protected when trade is involved.

(d) Dispute Settlement:

The WTO's procedure for resolving trade quarrels under the Dispute Settlement Understanding is vital for enforcing the rules and therefore, for ensuring that trade flows smoothly.

Countries bring disputes to the WTO if they think their rights under the agreements are being infringed. Judgments by specially appointed independent experts are based on interpretations of the agreements and individual countries' commitments.

The system encourages countries to settle their differences through consultation. Failing that, they can follow a carefully mapped out, stage-by-stage procedure that includes the possibility of the ruling by a panel of experts and the chance to appeal the ruling on legal grounds.

Confidence in the system is bourne out by the number of cases brought to the WTO, around 300 cases in eight years compared to the 300 disputes dealt with during the entire life of GATT (1947-94).

(e) Policy Review:

The Trade Policy Review Mechanism's purpose is to improve transparency, to create a greater understanding of the policies that countries are adopting and to assess their impact. Many members also see the reviews as constructive feedback on their policies.

All WTO members must undergo periodic scrutiny, each review containing reports by the country concerned and the WTO Secretariat.

POSSIBLE QUESTIONS
UNIT-II

PART – B

1. Write short note product life cycle.
2. List out types of tariff barriers
3. Define WTO.
4. What are the non tariff barriers?
5. Write short note product life cycle.

PART – C

1. Enumerate the types and Impact of Non-Tariff Barriers.
2. Explain the various principles of world trade organization.
3. What are the important methods of financing balance of payment disequilibrium?
4. Explain the types of Trade Barriers with suitable examples.
5. Elucidate the types of Tariffs with suitable examples.
6. Explain the Components of Balance of Payment?
7. Explain the Objectives and an Evaluation of General Agreement on Tariff and Trade
8. Describe the Organizational Structure, Functions and Principles of World Trade Organization (WTO).
9. Enumerate the types and Impact of Non-Tariff Barriers.
10. Explain the various principles of world trade organization.

KARPAGAM ACADEMY OF HIGHER EDUCATION

INTERNATIONAL BUSINESS

POSSIBLE QUESTIONS UNIT - II

Questions	Opt 1	Opt 2	Opt 3	Opt 4	Answer
A tariff is ____________.	either imports or exports.	a tax on exports only.	imports only.	a luxury tax.	imports or exports.
To be effective, an import quota must ____________.	reduce the price and increase the quantity of imports.	set the price of the imported good higher than the domestic equilibrium price.	restrict imports to less than would be imported under free trade.	restrict imports to less than exports in trade with that particular country.	restrict imports to less than would be imported under free trade.
Quantitative restrictions refer to limit set by countries to curb ______________.	imports.	exports.	imports & exports.	currency reserves.	imports & exports.
A Most Favored nation status doesnt necessarily refers to_____________.	equal economic treatment.	nondiscriminatory treatment.	same tariff rates applicable.	uniform civil code.	uniform civil code.
When did the government introduced a new export / Import Policy?	1994	1993	1992	1990	1992
When did India introduce the new Economic Policy?	1986	1991	1992	1996	1991
What is the percentage of Indias export trade in 1965 to 1966?	65 percentage.	72 percentage.	86 percentage.	92 percentage.	72 percentage.
BPO gives ____________ percentage increase in export turnover annually.	50 to 60.	60 to 70.	70 to 80.	80 to 90.	60 to 70.
Traditional Production export rate in 1965-66 is _____________.	42 percentage.	52 percentage.	62 percentage.	72 percentage.	72 percentage.
___________ is one of the largest producer & consumer of tea.	India.	Japan.	China.	Canada.	India.
To achieve the balance of trade __________ policy was formulated	EXIM	ECGC.	FOB	FIEO.	EXIM
When did India introduce new trade policy?	1990	1991	1992	1993	1991

FTP refers to _______________.	Free Trade Policy.	Foreign Trade Policy.	Fees Trade Policy.	Fright Trade Policy.	Foreign Trade Policy.
The goals of international marketing are to _______________.	create and retain customers in global markets.	gain market share and increase profit.	expand business activities abroad.	eliminate competition in international markets.	create and retain customers in global markets.
A specific amount of money levied on each unit of a product brought into the country is a _____________.	fixed tariff.	protective tariff.	duty free tariff.	value added tariff.	fixed tariff.
The foreign trade Development and Regulation Act 1992 has replaced the earlier __________.	Societies registration act.	Import & Export control Act 1947.	Board of 962.	Export policy resolution, 1970.	Import & Export control Act 1947.
TBT stands for ____________________	Technical Barriers to Trade.	Technical Base to Trade.	Technical Base to Tariff.	Technical Barrier to Trade.	Technical Barriers to Trade.
If a company exports a product at a price lower than the price it normally charges on its own home market, it is said to be ___________ the product	licensing.	dumping.	safeguarding.	subsiding.	dumping.
The trade balance is often a major determinant of the ____________ of a country.	standard of living of the people.	development.	trade policy.	balance of payment.	balance of payment.
Trade deficit has often caused ____________ deficits for India.	foreign exchange.	export.	import.	balance of payment.	balance of payment.
____________ of India has been hindered by a number of inherent weaknesses of the export sector and the government environment.	Import development.	Export development.	Trade development.	Ministry of commerce.	Export development.
Indias share and rank in global trade has __________ recently	improved.	decreased.	moderated.	reached peak.	improved.
International _______________ seek to stabilize commodity prices by maintaining the demand-supply balance.	buffer stock agreement.	quota agreement.	multilateral contract.	cartels.	buffer stock agreement.

___________ means establishment of state monopoly in foreign trade.	Inciters.	Cartel.	State trading.	Canalization.	Canalization.
__________ has been fostered to a large extent of technological revolution.	Liberalization.	Privatization.	Globalization.	Modern exports.	Globalization.
Global business encounters different ___________ in different countries across the world.	legal systems.	trade policies.	fiscal policies.	business policies	legal systems.
A firm doing business abroad has to consider the relevant ____________ of the foreign countries.	laws and regulations.	trade practices.	environment.	current reserves	laws and regulations.
___________ is one of the simplest ways of remedying the balance of payment problems.	Import restriction.	Export restriction.	Trade control.	Exchange control.	Import restriction.
Exports and Imports come under the purview of ______________.	Ministry of Finance.	Ministry of Commerce.	Ministry of External Affairs.	Ministry of Home Affairs.	Ministry of Commerce.
_______________ contributes to major export turnover of our country.	Leather sector.	Tea.	Coffee.	BPO.	BPO.
Engineering exports contributed _________percentage increase during the past 3 years.	17	27	38	49	38
Income tax exemption to 100 percentage EOUs STPs under _____________.	sec 11b and c.	Sec 12 a and b.	sec 5a and c.	sec 10b and a	sec 10b and a
Traditional product export rate in 1997 to 98 ____________.	43 percentage.	55 percentage.	67 percentage.	24 percentage	24 percentage
Agricultural and Processed food product export development authority is in ____________.	Mumbai.	New Delhi.	Chennai.	Kolkatta.	New Delhi.
Basic chemicals, pharmaceuticals and cosmetic export promotion council is at _____________.	Mumbai.	New Delhi.	Chennai.	Kolkatta.	Mumbai.

Regulation of Imports and Exports of a country is known as ____________ as against exchange control which regulates payment of imports and exports.	trade control.	import substitution.	export permission.	elasticity approach.	trade control.
Technology transfer is the process by which commercial technology is _____________.	used.	collected.	disseminated.	produced.	disseminated.
Arabia & Robusta is famous for _____________ in exports.	tea.	coffee.	yarn.	tobacco.	coffee.
MLPS refers to ______________.	Market Linked Focus Production Scheme.	Market Legal Focus Priority Scheme.	Market Linked Federation Production Scheme.	Market Linked Focus Process Scheme.	Market Linked Focus Production Scheme.
MDA means ________________	Market Development Association.	Market Deemed Association.	Market Development Assistance.	Market Deemed Assistance.	Market Development Assistance.
In which year Washington adopted bar value system?	1945	1946	1947	1948	1946
Expand ITA	Industries and Trade Association.	Internal and Trade Association.	International Trade Association.	Institution and trade Association.	Industries and Trade Association.
Collective money, reserves, cash items in process of collection, and deposits at other banks, are referred to as in a bank balance sheet ______________.	secondary reserves.	cash items.	liquid items.	compensating balances.	cash items.
Companies that want more control and are willing to invest considerable resources in ______________.	trading company.	licensing.	direct investment.	exporting.	direct investment.
The institution of Board of Trade was first constituted in ____________.	1961	1962	1963	1964	1962

Handicraft & Handloom Export Corporation of India is the subsidiary body of ________.	The Board of Trade.	Indian Council of Arbitration.	Indian Institute of Foreign Trade.	State Trading Corporation.	State Trading Corporatio n.
Agricultural & allied products, ore & minerals, and ________ are the commodity composition of Indian exports.	raw materials.	semi finished goods.	manufacture d goods.	spices.	manufactur ed goods.
By working together both firms can achieve more than what they could independently do, this concept under international business is called as ____________.	sharing risk and cost.	sharing knowledge.	joint venture.	synergy.	synergy.
To inspire confidence in the importers of Indian goods & ensure the quality of goods exported from India, the government passed _____________	the companies Act,1956.	societies registration Act.	the foreign trade developmen t Act.	the export quality control Inspection Act,1963.	the export quality control Inspection Act,1963.
______________ is responsible for execution of the export & import policies of the government	Federation of Indian Trade Organizations.	Commerce Department Ministry.	The Director General of Foreign Trade.	The Director General of Commercial Intelligence & Statistics.	The Director General of Foreign Trade.
The responsibility for the administration of foreign trade is hold by ____________	Director General Foreign Trade.	Director Director Generals of Foreign Trade.	Joint Deputy Generals of Foreign Trade.	Government of India.	Director General Foreign Trade.
Transactions in goods and services and income between an economy and the rest of the world is termed as _________________	Monetary Transaction	Financial Operation	Balance of Payments	Mutual Financing	Balance of Payments
Accounting the transactions of exports and imports of invisible items only is called as __________	Balance of Trade	Balance of Payments	Financial Transaction s	Economies of Scale	Balance of Trade
Servicing a product is classified as __________	Visible good	Invisible good	Tradable item	Non tradable item	Invisible good

The account that consists both Merchandise and Invisible Exports and Imports is termed as ____________	Current Account	Capital Account	Unilateral Payments Account	Official Reserves Assets Account	Current Account
Major reason for BOP disequilibrium is _______	Periodic Fluctuations	Cyclical Fluctuations	Regular Fluctuations	Frequent Fluctuations	Cyclical Fluctuation s
Under Free Trade ___________ occurs on an International Scale.	Recruitment	Training	Division of Labour	Technology Development	Division of Labour
Competition in free trade situation would be ___________	Scare	Normal	Less	Intense	Intense
Monopolies and Consumer Exploitations are minimized in _____________	Communist Economy	Closed Economy	Mixed Economy	Free Trade Economy	Free Trade Economy
A feature of free trade economy is that it _____	Reduces Corruption	Increases Corruption	Increases Price	Reduces Distribution	Reduces Corruption

UNIT-III

SYLLABUS

a. Regional Economic Co-operation: Forms of Regional Groupings - Integration Efforts among Countries in Europe, North America and Asia (NAFTA, EU , ASEAN and SAARC) .
b. International Financial Environment: International financial system and institutions - IMF and World Bank – Objectives and Functions - Foreign Exchange Markets and Risk Management- Foreign Investments - Types and Flows - Foreign Investment in Indian Perspective

Regional Economic Groupings – Meaning

Regional Economic Groups are the associations of countries situated in a particular region whereby they come to a common understanding regarding rules and regulations to be followed while exporting and importing goods among them. Such groups have liberal rules for member countries while a separate set of rules is laid for non-members.

Regional economic groups / blocs

The purpose of creating trading blocs is to reduce or eliminate unnecessary trade barriers between member states, and to allow the free movement of goods, services, labour and capital.

However, non-members of trading blocs are facing with financial and non-financial restrictions on their exports to these blocs, such as tariffs, quotas and even embargoes. As a result it is difficult for any country to survive outside one of these blocs and the world is splitting into expanding groups of trading nations promoting free trade between themselves, at the same time as they are restricting it to those countries outside of their blocs.

Pros and Cons of Regional Integration

There are many theoretical advantages and disadvantages that come with regional integration,

The **advantages** include:

- Less chance of conflict and war.
- Larger markets and customer base allows businesses within member countries to exploits economies of scale.
- Freedom of movement of goods and peoples.
- Increased global significance.
- Improving environmental and social conditions.
- The promotion of democracy and liberalisation.
- Trade creation-the elimination of protectionism increases trade, leading to a more efficient allocation of member state resources.

The **disadvantages** include:

- Loss of sovereignty, independence, and national identity.
- Loss of national power in favour of even bigger government.
- Increased competition leading to job losses in some domestic industries.
- Loss of border control and the increased risk of smuggled goods and people.
- Uniform laws don't account for cultural differences.
- Trade diversion - the elimination of trade barriers among the member states may divert trade away from more efficient non-member states that are disadvantaged by the protectionism they still face.

Protectionism

Protectionism arises because countries may not always feel that they benefit from completely free trade. While they may understand that free trade will benefit everyone, they may be suffering some of the costs associated with trade and feel that they want to restrict aspects of trading activity. These restrictions are known as protectionism. Trading blocs practice varieties of protectionist behaviour.

Examples of protectionist policies include:

- **Tariffs** - a tariff is a tax on imports. Tariffs reduce supply and raise the price of imports. This gives domestic equivalents a competitive advantage. Tariffs will often be charged by regional trading blocs on imports from countries outside the area. The EU charges a common external tariff (CET) to many goods imported into the EU.
- **Quotas** - quotas have the effect of restricting the maximum amount of imports allowed into an economy. Once again they reduce the amount of imports entering an economy and increase the equilibrium price within the market. The government receives no revenue from a quota, as it does with a tariff, unless it can set up a system of licences.
- **Export subsidies** - export subsidies allow exporters to supply the market with more product than the natural market equilibrium would have allowed. Foreign consumers will enjoy increased economic welfare as the price of their purchases fall. Domestic employees might enjoy more wages and job security, but domestic taxpayers are footing the bill for this.
- **Embargo** - imports from certain countries are completely prohibited.
- **Administrative barriers** - countries or regional blocs can also use a range of administrative or legal devices to slowdown imports and to add costs. These can include the importing firm being required to obtain various licences and permits.

Components of International Financial Environment

International financial system relates to the management of and trading in international money and monetary assets. These monetary assets are claims on foreign currency, foreign deposits and investments and/or foreign assets. The claims may be denominated in various foreign currencies purchased and sold and involve exchange as between various currencies. Thus, these transactions give rise to (i) Borrowing and lending operations in foreign currencies or trading in financial assets denominated in foreign currencies and (ii) A foreign exchange transaction involving an exchange of one currency for another. The first is called the foreign currency market and the second is the foreign exchange market.

Foreign Exchange Market:

International economic and commercial relations between countries involve exchange of goods and services and payments for these exchanges. The payments lead to conversion of one currency into another. Each country has its own financial system and its own currency and financial assets. Exchanges between the money and financial assets of one country for money or financial assets of another country constitutes international financial transactions. These transactions are put through the foreign exchange market. The demand for any currency as against its supply in such markets determines the exchange rate. These financial assets could be money or near-money assets, cheques, drafts, mail transfers and other negotiable instruments.

The difference between the domestic financial system and international financial system lies in the introduction of exchange of one currency for another or exchange of one instrument in one currency for another denominated in a different currency. In the process of such exchange, the transfer problem arises in the international markets which relates to the problem of finding the proper source of supply to suit the demand for any foreign currency. This leads to an adjustment process in the balance of payments of the various countries which in turn depends upon the type of international monetary system in vogue. These will be dealt with in another chapter.

The basic principle involved is that economic and commercial transactions between one country and another are adjusted by the corresponding purchase and sale of financial assets, including money and near-money by one country for that of another country. The prices of goods and services of one country vis-a-vis the prices of the corresponding goods and services of another country will determine the purchasing power of each currency. Exchange rate is primarily a reflection of the purchasing power of the currency domestically. Exchange rate fluctuations on a day-to-day basis will depend, however, upon the competitive forces of demand for and supply of any currency in these markets. In the short run and long run, exchange rates would depend upon the relative degrees of inflation in the domestic economies and changes in the purchasing power of currencies. Exchanges standard and the international monetary system would facilitate such adjustment of exchange rates to changes in supply and demand and to changes in purchasing power parities. Speculative purchases and sales of currencies and hedge trading in these currencies would also take place daily and would depend upon their relative strengths in international markets, market confidence in those currencies and intrinsic strength of the domestic economies.

The International Monetary Fund was established to facilitate transactions as between the member-countries and impart an element of stability in the international monetary scene. Each country can purchase and sell its currency from the International Monetary Fund for another currency of the member country to meet its requirements of international payments for goods and services.

International Currency Markets:

As an adjunct to the exchange markets, there are international currency markets where internationally accepted currencies, namely, the so-called reserve currencies, are traded. These relate to the deposits of such currencies with international banks at an agreed rate of interest. The excess funds in these reserve currencies owned by countries, institutions and governments having surplus receipts over payments would be lent out to banks and other financial institutions for various durations at a rate of interest. The currencies are in demand for meeting the balance of payments deficits or for investment in fixed capital or for working capital purposes.

The other components of the international financial system are international capital markets and bonds markets. The international capital markets such as London, New York, Zurich etc. have lost much of their popularity due to national restrictions and scarcity of funds in those centres. Bond markets in these centres are still operating and international banks are arranging these issues on a selective basis. Now, Euro¬currency and Euro-bond markets are the most popular international means of medium and long-term financing.

The relations between the foreign exchange market and international currency markets are not difficult to comprehend. The trade and other economic and commercial transactions involve receipts and payments as between countries. These will lead to exchange of one currency for others. The demand for and supply of each of the currencies against an alternative currency determines the rate at which two currencies are exchanged. This is called the exchange rate and the market is the foreign exchange market. In the process of such economic and commercial transactions, a country can be a net creditor or a debtor. If a country is a net creditor or has a positive trade surplus or receives more than it pays out, it has net foreign claims on others. Such claims are held in the form of deposits, balances, etc., abroad or investments in Treasury Bills, Government and Private securities etc. Such claims would lead to international currency holdings which are generally held in convertible currencies by the creditor countries for reasons of facilitating subsequent use and conversion for international payments. Any market representing the demand for and supply of such currencies is called the international currency market. While thus the foreign currency market refers to trading in external dollars or other currencies held abroad, foreign exchange market refers to the conversion of such dollars into other currencies. The obvious inter-relations between these two segments in the international financial system need no elaboration.

Institutions in International Financial System:

There are a number of institutions who are part of the international financial system. These institutions can be classified into the following categories:

• >National banks and domestic financial institutions which deal in foreign currencies and foreign credits.

• International brokers of repute.

• Regional or multi-national banks or corporations dealing in international markets and borrowing/ lending in these markets.

• Regional Finance and Development Corporations and banks such as the Asian Development Bank, Commonwealth Finance Corporation, Latin American Development Bank, Bank for International Settlements, etc.

• International financial organisations like International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and International Development Agency (IDA).

Export Procedures

- **Export Licence**

Majority of goods are allowed to be exported without obtaining a licence. Export licenses are only required for items listed in the Schedule 2 of ITC (HS) Classifications of Export and Import items. An application for grant of Export Licence for such items must be submitted to the Director General of Foreign Trade (DGFT). The Export Licensing Committee under the Chairmanship of Export Commissioner considers such applications on merits for issue of export licenses.

Export of Special Chemicals, Organisms, Materials, Equipment and Technologies (SCOMET) items are also permitted under a license or prohibited altogether. Guidelines for Export of SCOMET items can be viewed here.

- **Export of Samples**

Export of samples upto specified limits are allowed free. The exporter is required to be registered with the appropriate Export Promotion Council to avail of this benefit. Samples with permanent marking as "sample not for sale" are allowed freely for export without any limit.

- **Processing of Shipping Bill**

In case of export by sea or air, the exporter must submit the 'Shipping Bill', and in case of export by road he must submit 'Bill of Export' in the prescribed form containing the prescribed details such as the name of the exporter, consignee, invoice number, details of packing, description of goods, quantity, FOB value, etc. Along with the Shipping Bill, other documents such as copy of packing list, invoices, export contract, letter of credit, etc. are also to be submitted. There are 5 types of shipping bills:-

- Shipping Bill for export of duty free goods. This shipping bill is white coloured.
- Shipping bill for export of goods under claim for duty drawback. This shipping bill is green coloured.

- Shipping bill for export of duty free goods ex-bond i.e. from bonded warehouse. This shipping bill is pink coloured.
- Shipping Bill for export of dutiable goods. This shipping bill is yellow coloured.
- Shipping bill for export under DEPB scheme. This shipping bill is blue in colour.

The Bills of Export are:-

- Bill of export for goods under claim for duty drawback
- Bill of export for dutiable goods
- Bill of export for duty free goods
- Bill of export for duty free goods ex-bond
- Exporters can check and track the status of Shipping Bills online.

Let Export Order

After the receipt of the goods in the dock, the exporter may contact the Customs Officer designated for the purpose and present the checklist with the endorsement of Port Authority and other declarations along with all original documents. Customs Officer may verify the quantity of the goods actually received and thereafter mark the Electronic Shipping Bill and also hand over all original documents to the Dock Appraiser, who may assign a customs officer for the examination of the goods. If the Dock Appraiser is satisfied that the particulars entered in the system conform to the description given in the original documents, he may proceed to allow "let export" for the shipment.

EXPORT DOCUMENTATION AND PROCEDURES

Exporters should seriously consider having the freight forwarder handle the formidable amount of documentation that exporting requires; freight forwarders are specialists in this process. The following documents are commonly used in exporting; which of them are actually used in each case depends on the requirements of both our government and the government of the importing country.

- 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

Enquiry:

STEP1

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 to be complied with by the 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 Invoice to the Buyer.

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 Exporter, giving as much data as 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 by the Exporter. 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 Central Excise, but the AR4 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 to get the consignment sealed by the Central Excise authorities at the factory premises itself, so that open inspection by Customs authorities at the Port can be avoided.

If export consignments are removed from the factory of manufacture, following the AR4 procedure, claiming exemption of excise duty, there is an obligation cast 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 shipping the consignments, 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 locations - both for air or sea consignments - the C&F Agents are required to file with Customs the shipping documents, through a particular format, which will vary depending on the nature of 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 permitted by Customs for ultimate 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 Reserve Bank, viz., Banks.

Under the Generalized System of Preference, imports from developing countries enjoy certain duty concessions, for which the exporters in the developing countries 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 those to the Banker of the importer, to enable him clear the consignment.

It is expected of such authorized dealers of Reserve Bank to ensure receipt of export proceeds, which factor has to be intimated to the Reserve Bank by means of 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 Customs endorsements made on the 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 Certificate, the export 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 only through such a system Reserve Bank can ensure receipt of export proceeds for goods shipped out of this country.

Documents Required

Export procedure describes the documents required for exporting from India. Special documents may be required depending on the type of product or destination. Certain export products may require a quality control inspection certificate from the Export Inspection Agency. Some food and pharmaceutical product may require a health or sanitary certificate for export.

Shipping Bill/ Bill of Export is the main document required by the Customs Authority for allowing shipment. Usually the Shipping Bill is of four types and the major distinction lies with regard to the goods being subject to certain conditions which are mentioned below:

- Export duty/ cess
- Free of duty/ cess
- Entitlement of duty drawback
- Entitlement of credit of duty under DEPB Scheme
- Re-export of imported goods

The following are the export documents required for the processing of the Shipping Bill:

- GR forms (in duplicate) for shipment to all the countries.
- 4 copies of the packing list mentioning the contents, quantity, gross and net weight of each package.
- 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.
- Contract, L/ C, Purchase Order of the overseas buyer.
- AR4 (both original and duplicate) and invoice.
- Inspection/ Examination Certificate. The formats presented for the Shipping Bill are as given below
- White Shipping Bill in triplicate for export of duty free of goods.
- Green Shipping Bill in quadruplicate for the export of goods which are under claim for duty drawback.
- Yellow Shipping Bill in triplicate for the export of dutiable goods.
- Blue Shipping Bill in 7 copies for exports under the DEPB scheme

Note: - For the goods which are cleared by Land Customs, Bill of Export (also of 4 types - white, green, yellow & pink) is required instead of Shipping Bill.

Documents Required for Post Parcel 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.
- Dispatch Note, also known as CP2. It is filled by the sender to specify the action to be taken by the postal department at the destination in case the address is non-traceable or the parcel is refused to be accepted.
- Prescriptions regarding the minimum and maximum sizes of the parcel with its maximum weight : Minimum size: Total surface area not less than 140 mm X 90 mm.
- Maximum size: Lengthwise not over 1.05 m. Measurement of any other side of circumference 0.9 m./ 2.00 m.
- Maximum weight: 10 kg usually, 20 kg for some destinations.

- Commercial invoice - Issued by the seller for the full realizable 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.
- Legalized/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 Chemical Analysis - It is required to ensure the quality and grade of certain items such as metallic ores, pigments, etc.
- 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.
- Tran-shipment Bill - It is used for goods imported into a customs port/ airport intended for Tran-shipment.
- Shipping Order - Issued by the Shipping (Conference) Line which intimates the exporter about the reservation of space of shipment of cargo through the specific vessel from a specified port and on a specified date.
- Cart/ Lorry Ticket - It is prepared for admittance of the cargo through the port gate and includes the shipper's name, cart/ lorry No., marks on packages, quantity, etc.
- Shut Out Advice - It is a statement of packages which are shut out by a ship and is prepared by the concerned shed and is sent to the exporter.
- 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.

Order (business)

In business or commerce, an order is a stated intention, either spoken or written, to engage in a commercial transaction for specific products or services. From a buyer's point of view it expresses the intention to buy and is called a purchase order. From a seller's point of view it expresses the intention to sell and is referred to as a sales order. When the purchase order of the buyer and the sales order of the seller agree, the orders become a contract between the buyer and seller.

Within an organization, the term order may be used to refer to a work order for manufacturing, a preventive maintenance order, or an order to make repairs to a facility.

In many businesses, orders are used to collect and report costs and revenues according to well-defined purposes. Then it is possible to show for what purposes costs have been incurred. **Spoken orders**

Businesses such as retail stores, restaurants and filling stations conduct business with their customers by accepting orders that are spoken or implied by the buyer's actions. Taking a shopping cart of merchandise to a check-out counter is an implied intent to buy the merchandise. Placing a take-out or eat-in order at a restaurant is a spoken purchase order. Putting gasoline in one's tank at a filling station is an implied order. The seller usually expects immediate payment by cash, check or credit card for these purchases, and the seller provides the buyer with a receipt for the payment. In legal terms, this form of business order is an "implied in fact contract".

Steps in commercial orders

In commerce, various business documents are used to record the negotiation of an agreement to buy and sell, record the agreement itself, and record compliance with the agreement and closure of the contract. An agreement to buy and sell is a form of contract.

There are five basic requirements for a contract to exist between two parties: agreement, voluntary, consideration, capacity, and legality. A sixth requirement of "in writing" sometimes applies.

The main concern for commercial orders is that there must be agreement (offer and acceptance) for the order to be a contract. Prior to this, businesses often record the details of negotiations by using a request for quotation, request for bid, sales quotation, or sales bid. Quotations are non-binding and part of the negotiation process. A request for bid can be binding or non-binding, depending on the terms of the bid.

Once an agreement or contract is in place, businesses record these as confirmed purchase orders and confirmed sales orders.

Commerce	**Buyer's Action**	**Seller's Action**
Buyer wanting the product and seller selling the product	Search for vendors (sellers) of the product	Marketing and advertising
Check product pricing, availability, specifications, delivery costs	Request for Quotation or Request for Bid	Sales quote or bid created
Buyer and seller agree to transaction	Purchase order recorded	Sales order recorded
Product is shipped from seller to buyer		Packing slip, *pro forma* invoice for certain international shipments
Buyer receives product from seller	Packing slip and product is checked with purchase order; product is checked for good condition	

Seller sends invoice to buyer	Match packing slip with purchase order and invoice; record purchase in financial accounts under accounts payable	Record sales order in financial accounts under accounts receivable
Buyer pays seller	Pay by cash, check or electronic payment; record payment on purchase order	Receive cash, check or electronic payment; record payment on sales order

Uniform Commercial Code

In the US, Article 2 of the Uniform Commercial Code covers commercial contracts, and section 2-103 gives definitions of terms under this code. Section 2-106 describes the difference between a present sale (recorded as a sales order) and asale (recorded as a transfer of title to the buyer).

(1) In this Article unless the context otherwise requires "contract" and "agreement" are limited to those relating to the present or future sale of goods. "Contract for sale" includes both a present sale of goods and a contract to sell goods at a future time. A "sale" consists in the passing of title from the seller to the buyer for a price (Section 2-401). A "present sale" means a sale which is accomplished by the making of the contract.

Aggregate level of orders

In their "Advance Monthly Sales for Retail Trade and Food Services", the US Census Bureau publishes estimates of US retail and food services sales. These "sales" are orders that have been filled; payment has been made or is an account receivable. In their "Preliminary Report on Manufacturers' Shipments, Inventories and Orders", the US Census Bureau publishes statistics for "new orders", shipments, "unfilled orders" and inventories for manufactured durable goods. This gives an indication whether trade is increasing or decreasing for manufactured durable goods in the US.

Order Receipt

An order receipt is a document that provides information about the details of an order and confirms it has been received by the company responsible for fulfilling it. It may come by email or fax confirmation, and sometimes arrives in the mail when the lead time on an order is considerable. It offers notice to the buyer about the specifics of the order and usually has information on how to cancel or change it, if necessary, often by using a return slip included with the receipt for convenience.

A typical order receipt should list the name and contact information for the shipper and seller, and specify the items in the order. It will include an estimated ship and delivery date, if appropriate, and the amount of the order, including tax, shipping, handling charges, and any other expenses. If the buyer finds an error, she can correct it before the order is actually filled, eliminating the need for a costly returns process where the goods go back to the shipper because a mistake was made.

Example

Confirm Receipt of an Order from a Customer

Dr. Mel Luthy, Chief Editor

Sample Letter #1

As you requested in our phone conversation this morning, I have notified our truck driver to pick up your old refrigerator when he delivers the new one that you purchased on Friday.

We will make our delivery in the early afternoon on Tuesday, March 5. The driver will call to confirm that someone will be home at that time. There is no extra charge for this pickup service.

[Senders Name]
[Address line 1]
[Address line 2]
[State, ZIP Code]

Sample Letter #1: Confirm receipt of an order from a customer

[Letter Date]

[Recipients Name]
[Address line 1]
[Address line 2]
[State, ZIP Code]

[Subject: Normally bold, summarizes the intention of the letter] -Optional-
Dear [Recipients Name],

I would like to inform you to expect the delivery of the items you purchased from our store on Monday, between 2:00 pm and 4:00 pm. We will also help you dispose of your old air-conditioning unit when we make the delivery. Please ensure that someone is home during this time to meet our delivery personnel, so that there will not be any unnecessary delays. Rest assured that there will be no additional charges for the pick up of your old unit. Thank you.

Sincerely,
[Senders Name]
[Senders Title] -Optional-

Procedures for 'negotiation of export documents'

Once your goods moved out of your factory, the Customs House Agents appointed by you complete customs formalities on behalf of you and delivers you necessary export shipping documents. Once customs formalities completed and obtained 'let export order' shipping bill, you hand over cargo to shipping line to carry your goodsProcedures for negotiation of export documents to final destination at buyer's place. Once after handing over cargo to shipping line, Bill of Lading is issued.

What are the precautions to be taken while submitting documents for negotiation with bank?

While negotiating documents, you submit all required documents as per letter of credit terms and conditions to bank to send to your overseas buyer though LC opening bank.

When shipment is under Letter of Credit, documentation is a crucial part as the opening bank debits you against any discrepancy found on documents. So once you received Letter of Credit, make a copy of the same and read carefully twice. Mark each and every point where ever necessary. Whether any international inspection required, clean on board bill of lading, factory inspection certificate, certificate of origin, legalized documents, consulate attestation, SGS,BVQI inspection, Phyto sanitary certificate, chemical analysis certificate, shipped on board certificate, freight certificate, etc.etc. List out the documents required to submit while negotiating bills. Go through each document minimum twice, whether each document is as per LC requirements. Make sure, all documents are there as per LC terms and not found any discrepancy in each of document. This is very important while submitting documents with bank to send to overseas buyer through buyer's bank.

Once after receipt of export documents, your bank arranges to negotiate bill as per Letter of credit terms and conditions after proper verification of each and every clause. If your export order is in US Dollar currency, you can either convert the amount in your currency or you can open a dollar account and transfer the amount accordingly.

LETTER OF CREDIT

After a contract is concluded between a buyer and a seller, the buyer's bank supplies a letter of credit to the seller. Seller consigns the goods to a carrier in exchange for a bill of lading.

Seller provides the bill of lading to bank in exchange for payment. Seller's bank then provides the bill to buyer's bank, which provides the bill to buyer.

Buyer provides the bill of lading to carrier and takes delivery of the goods.

A letter of credit is a document from a bank guaranteeing that a seller will receive payment in full as long as certain delivery conditions have been met.

In the event that the buyer is unable to make payment on the purchase, the bank will cover the outstanding amount. They are often used in international transactions to ensure that payment will be received where the buyer and seller may not know each other and are operating in different countries. In this case the seller is exposed to a number of risks such credit risk, and legal risk caused by the distance, differing laws and difficulty in knowing each party personally. A letter of credit provides the seller with a guarantee that they will get paid as long as certain delivery conditions have been met. For this reason the use of letters of credit has become a very important aspect of international trade.

The bank that writes the letter of credit will act on behalf of the buyer and make sure that all delivery conditions have been met before making the payment to the seller. Most letters of credit are governed by rules promulgated by the International Chamber of Commerce known as Uniform Customs and Practice for Documentary Credits. Letters of credit are typically used by importing and exporting companies particularly for large purchases and will often negate the need by the buyer to pay a deposit before delivery is made.

They are also used in land development to ensure that approved public facilities (streets, sidewalks, storm water ponds, etc.) will be built. The parties to a letter of credit are the supplier, usually called the "beneficiary", "the issuing bank", of whom the buyer is a client, and sometimes an advising bank, of whom the beneficiary is a client. Almost all letters of credit are irrevocable, i.e., cannot be amended or canceled without mutual consent of all parties.

Terminology

Origin

The name "letter of credit" derives from the French word "accréditation", a power to do something, which derives from the Latin "accreditivus", meaning trust.[citation needed]

Related terms

- A sight LC causes payment to be made immediately to the beneficiary/seller/exporter upon presentation of the correct documents. A time or date LC specifies when payment is to be made at a future date and upon presentation of the required documents

- Negotiation means the giving of value for draft(s) or document(s) by the bank authorized to negotiate, with the nominated bank. Mere examination of the documents and forwarding the same to the LC issuing bank for reimbursement, without giving of value / agreed to give, does not constitute a negotiation.
- Advising Bank — advises the beneficiary at the request of the issuing bank.
- Applicant — the party on whose request the issuing bank issues a credit.
- Banking day—The day on which a bank is regularly open at the place at which an act to be performed.
- Beneficiary — the party who is to receive the benefit (payment) of the LC. The consignee of an LC and the beneficiary may not be the same. The credit is issued in the beneficiary's favor.
- Presentation — either delivery of documents against an LC or the document itself.
- Complying presentation — when the presentation of documents is in accordance with:

  The terms and conditions of the credit

  The applicable provisions of UCP

  International standard banking practice
- Confirmation — a definite undertaking from the confirming bank to honor or negotiate a complying presentation in addition to that of the issuing bank.
- Confirming bank — adds confirmation to an LC. It does so at the request of the issuing bank and taking authorization from the issuing bank.
- Letter of credit/credit — an irrevocable commitment of the issuing bank to honor a complying presentation.
- Honour — to act according to commitment of the LC. Presentations are honored in different ways depending on the type of credit:

  Making payment at sight for sight LC.

  Incurring a deferred payment undertaking and paying at maturity for deferred payment LC.

  Accepting a draft drawn by the beneficiary and paying at maturity for deferred acceptance LC.
- Issuing bank — issues the LC.

- Nominated Bank — the bank with which credit is available. If no bank is mentioned in the credit as nominated bank, all banks are "nominated".
- Negotiation — A nominated bank is said to negotiate a document if it purchases a draft or documents under a complying presentation either by making an advance or agreeing to advance funds to the beneficiary on or before the date on which reimbursement is due to the nominated bank. A draft drawn on a nominated bank cannot be purchased separately.

Documents that can be presented for payment

To receive payment, an exporter or shipper must present the documents required by the LC. Typically, the payee presents a document proving the goods were sent instead of showing the actual goods. The original bill of lading (BOL) is normally the document accepted by banks as proof that goods have been shipped. However, the list and form of documents is open to negotiation and might contain requirements to present documents issued by a neutral third party evidencing the quality of the goods shipped, or their place of origin or place. Typical types of documents in such contracts include:

- Financial Documents — Bill of Exchange, co-accepted draft
- Commercial Documents — Invoice, packing list
- Shipping Documents — Transport document, insurance certificate, commercial, official or legal documents
- Official Documents — License, embassy legalization, origin certificate, inspection certificate, phytosanitary certificate
- Transport Documents — Bill of lading (ocean or multi-modal or charter party), airway bill, lorry/truck receipt, railway receipt, CMC other than mate receipt, forwarder cargo receipt
- Insurance documents — Insurance policy or certificate, but not a cover note.

Legal principles governing documentary credits

One of the primary peculiarities of the documentary credit is that the payment obligation is independent from the underlying contract of sale or any other contract in the transaction. Thus the bank's obligation is defined by the terms of the LC alone, and the sale contract is irrelevant. The defenses available to the buyer arising out of the sale contract do not concern the bank and in no way affect its liability. Article 4(a) of the UCP states this principle clearly. Article 5 of the UCP further states that banks deal with documents only, they are not concerned with the goods (facts). Accordingly, if the documents tendered by the beneficiary, or his or her agent, are in order, then in general the bank is obliged to pay without further qualifications.

The policies behind adopting the abstraction principle are purely commercial and reflect a party's expectations: first, if the responsibility for the validity of documents was thrown onto banks, they would be burdened with investigating the underlying facts of each transaction, and less inclined to issue documentary credits because of the risk and inconvenience.

Second, documents required under the LC could in certain circumstances be different from those required under the sale transaction. This would place banks in a dilemma in deciding which terms to follow if required to look behind the credit agreement.

Third, the fact that the basic function of the credit is to provide a seller with the certainty of payment for documentary duties suggests that banks should honor their obligation notwithstanding allegations of buyer misfeasance. Courts have emphasized that buyers always have a remedy for an action upon the contract of sale and that it would be a calamity for the business world if a bank had to investigate every breach of contract.

The "principle of strict compliance" also aims to make the bank's duty of effecting payment against documents easy, efficient and quick. Hence, if the documents tendered under the credit deviate from the language of the credit the bank is entitled to withhold payment, even if the deviation is purely terminological. The general legal maxim de minimis non curat lex has no place in the field.

Types

- Import/export — The same credit can be termed an import or export LC[4] depending on whose perspective is considered. For the importer it is termed an Import LC and for the exporter of goods, an Export LC.
- Revocable — The buyer and the bank that established the LC are able to manipulate the LC or make corrections without informing or getting permissions from the seller. According to UCP 600, all LCs are irrevocable, hence this type of LC is obsolete.

- Irrevocable — Any changes (amendment) or cancellation of the LC (except it is expired) is done by the applicant through the issuing bank. It must be authenticated and approved by the beneficiary.
- Confirmed — An LC is said to be confirmed when a second bank adds its confirmation (or guarantee) to honor a complying presentation at the request or authorization of the issuing bank.
- Unconfirmed — This type does not acquire the other bank's confirmation.
- Transferrable — The exporter has the right to make the credit available to one or more subsequent beneficiaries. Credits are made transferable when the original beneficiary is a middleman and does not supply the merchandise, but procures goods from suppliers and arranges them to be sent to the buyer and does not want the buyer and supplier know each other.

The middleman is entitled to substitute his own invoice for the supplier's and acquire the difference as profit.

A letter of credit can be transferred to the second beneficiary at the request of the first beneficiary only if it expressly states that the letter of credit is "transferable". A bank is not obligated to transfer a credit.

A transferable letter of credit can be transferred to more than one alternate beneficiary as long as it allows partial shipments.

The terms and conditions of the original credit must be replicated exactly in the transferred credit. However, to keep the workability of the transferable letter of credit, some figures can be reduced or curtailed.

i. Amount
ii. Unit price of the merchandise (if stated)
iii. Expiry date
iv. Presentation period
v. Latest shipment date or given period for shipment.

The first beneficiary may demand from the transferring bank to substitute for the applicant. However, if a document other than the invoice must be issued in a way to show the applicant's name, in such a case that requirement must indicate that in the transferred credit it will be free.

Transferred credit cannot be transferred again to a third beneficiary at the request of the second beneficiary.

- Untransferable — A credit that the seller cannot assign all or part of to another party. In international commerce, all credits are untransferable.
- Deferred / Usance — A credit that is not paid/assigned immediately after presentation, but after an indicated period that is accepted by both buyer and seller. Typically, seller allows buyer to pay the required money after taking the related goods and selling them.
- At Sight — A credit that the announcer bank immediately pays after inspecting the carriage documents from the seller.
- Red Clause — Before sending the products, seller can take the pre-paid part of the money from the bank. The first part of the credit is to attract the attention of the accepting bank. The first time the credit is established by the assigner bank, is to gain the attention of the offered bank. The terms and conditions were typically written in red ink, thus the name.
- Back to Back — A pair of LCs in which one is to the benefit of a seller who is not able to provide the corresponding goods for unspecified reasons. In that event, a second credit is opened for another seller to provide the desired goods. Back-to-back is issued to facilitate intermediary trade. Intermediate companies such as trading houses are sometimes required to open LCs for a supplier and receive Export LCs from buyer.

Pricing

Issuance charges, covering negotiation, reimbursements and other charges are paid by the applicant or as per the terms and conditions of the LC.

If the LC does not specify charges, they are paid by the Applicant. Charge-related terms are indicated in field 71B.

Legal basis

Legal writers have failed to satisfactorily reconcile the bank's undertaking with any contractual analysis. The theories include: the implied promise, assignment theory, the novation theory, reliance theory, agency theories, estoppels and trust theories, anticipatory theory and the guarantee theory.

Although documentary credits are enforceable once communicated to the beneficiary, it is difficult to show any consideration given by the beneficiary to the banker prior to the tender of documents. In such transactions the undertaking by the beneficiary to deliver the goods to the applicant is not sufficient consideration for the bank's promise because the contract of sale is made before the issuance of the credit, thus consideration in these circumstances is past. However, the performance of an existing duty under a contract may be a valid consideration for a new promise made by the bank, provided that there is some practical benefit to the bank A promise to perform owed to a third party may also constitute a valid consideration.

Another theory asserts that it is feasible to typify letter of credit as a collateral contract for a third-party beneficiary because three different entities participate in the transaction: the seller, the buyer, and the banker. Because letters of credit are prompted by the buyer's necessity and in application of the theory of Jean Domat the cause of a LC is to release the buyer of his obligation to pay directly to the seller. Therefore, a LC theoretically fits as a collateral contract accepted by conduct or in other words, an implied-in-fact contract under the framework for third party beneficiary where the buyer participates as the third party beneficiary with the bank acting as the stipulator and the seller as the promisor. The term "beneficiary" is not used properly in the scheme of an LC because a beneficiary (also, in trust law, cestui que use) in the broadest sense is a natural person or other legal entity who receives money or other benefits from a benefactor. Note that under the scheme of letters of credit, banks are neither benefactors of sellers nor benefactors of buyers and the seller receives no money in gratuity mode. Thus is possible that a "letter of credit" was one of those contracts that needed to be masked to disguise the "consideration or Privity requirement". As a result this kind of arrangement, would make letter of credit to be enforceable under the action assumpsit because of its promissory connotation.

A few countries, including the United States (Article 5 of the Uniform Commercial Code) have created statutes in relation to letters of credit. These statutes are designed to work with the rules of practice including UCP and ISP98. These rules of practice are incorporated into the transaction by agreement of the parties. The latest version of the UCP is the UCP600 effective July 1, 2007. Since the UCP are not laws, parties have to include them into their arrangements as normal contractual provisions.

International Trade Payment methods

International Trade Payment method can be done in the following ways.

- Advance payment (most secure for seller) — the buyer parts with money first and waits for the seller to forward the goods.
- Documentary Credit (more secure for seller as well as buyer) — Subject to ICC's UCP 600, the bank gives an undertaking (on behalf of buyer and at the request of applicant) to pay the beneficiary the value of the goods shipped if acceptable documents are submitted and if the stipulated terms and conditions are strictly complied with. The buyer can be confident that the goods he is expecting only will be received since it will be evidenced in the form of certain documents called for meeting the specified terms and conditions while the supplier can be confident that if he meets the stipulations his payment for the shipment is guaranteed by bank, who is independent of the parties to the contract.
- Documentary collection (more secure for buyer and to a certain extent to seller) — Also called "Cash Against Documents". Subject to ICC's URC 525, sight and usance, for delivery of shipping documents against payment or acceptances of draft, where shipment happens first, then the title documents are sent to the buyer's bank by seller's bank, for delivering documents against collection of payment/acceptance
- Direct payment (most secure for buyer) — The supplier ships the goods and waits for the buyer to remit the bill, on open account terms.

Risk situations

Fraud Risks

- The payment will be obtained for nonexistent or worthless merchandise against presentation by the beneficiary of forged or falsified documents.
- Credit itself may be funded.

Sovereign and Regulatory Risks

- Performance of the Documentary Credit may be prevented by government action outside the control of the parties.

Legal Risks

- Possibility that performance of a documentary credit may be disturbed by legal action relating directly to the parties and their rights and obligations under the documentary credit.

Force Majeure and Frustration of Contract

- Performance of a contract – including an obligation under a documentary credit relationship – is prevented by external factors such as natural disasters or armed conflicts.

Applicant

- Non-delivery of Goods
- Short shipment
- Inferior quality
- Early / late shipment
- Damaged in transit
- Foreign exchange
- Failure of bank viz issuing bank / collecting bank

Issuing Bank

- Insolvency of the applicant
- Fraud risk, sovereign and regulatory risk and legal risks

Reimbursing Bank

- No obligation to reimburse the claiming bank unless it has issued a reimbursement undertaking.

Beneficiary

- Failure to comply with credit conditions
- Failure of, or delays in payment from, the issuing bank

EXPORT DOCUMENTS

Documents required for an international sale can vary significantly from transaction to transaction, depending on the destination and the product being shipped. At a minimum, there will be two documents: the invoice and the transport document. The buyer will usually provide the seller with a list of documents needed to get the goods into his country as expeditiously and inexpensively as possible. Some documentary requirements are not open to negotiation, as they are needed by the importer to clear customs at the port of destination. This presentation discusses documentation in relation to export letters of credit.

When the letter of credit payment method is used for an export sale, each document presented under the terms and conditions of the letter of credit must:

1) Conform to all L/C terms and conditions.
2) Comply with the UCP 500.
3) Agree with the data content of every other document.

For the following documents listed, the number in parenthesis refers to the relevant UCP 500 article.

THE BILL OF EXCHANGE / DRAFT (UCP Article 9)

Almost every letter of credit presentation and documentary collection is accompanied by a draft. This demand for payment is drawn by the seller on the payee. The payee on a letter of credit draft is almost always a bank. For a documentary collection it would be the buyer.

COMMERCIAL INVOICE (UCP Article 37)

The accounting document claiming payment from the buyer, normally an export invoice would include:

- Seller's name and address
- Buyer's name and address
- Issue Date
- Invoice Number
- Shipping marks and numbers
- Term of Sale: e.g. FOB, etc.
- Shipping information
- Info required by L/C
- Country of Origin
- L/C number
- Merchandise description, P.O. number, unit price, and total price

CONSULAR INVOICE / VISAED INVOICE (UCP Articles 20, 21)

For exchange control and balance of payments reasons, some countries do not allow the import of merchandise unless accompanied by a certificate issued by one of its officials in the exporter's country. These certificates evidence that the shipment meets certain statutory or other regulations of the importing country. A visaed invoice is an original or copy of an invoice, which has been originally signed and/or stamped by a consulate official.

INSURANCE POLICY OR CERTIFICATE (UCP Article 34, 35, 36)

Every export sale should be covered by insurance. Who provides the coverage depends on the INCOTERM used. Insurance coverage on exports is a complicated issue that we cannot fully cover on this site. For more information on export insurance, we suggest that you contact your business insurance agent or freight forwarder as to who can provide insurance on an as Needed Basis" Or "By Blanket Policy" On An Annual Basis.

Certificates

When a letter of credit calls for a document to be issued as a "certificate", that document must be signed. Certificates come in a many different forms depending on the product and the country of destination. L/C's often require that certificates be issued by reputable third party inspection surveyors such as the Societe Generale de Surveillance (SGS) or the US Department of Agriculture. It is important to remember that each certificate required by an L/C will increase the cost of goods sold. Some of the most common certificates are discussed below.

Certificates should always be issued before the goods are shipped. Certificates issued after the goods arrived in the country of import defeat the purpose of the letter of credit.

Certificate of Origin (UCP Articles 20, 21)

A Signed Statement Certifying the Country of origin of the goods being sold is sometimes required by regulation in the buyer's country. This document may be as simple as a certificate signed by the seller. Certain countries may require it to be issued by a third party such a Chamber of Commerce, or be notarized, legalized, or visaed by their Embassy or Consulate.

Inspection Certificate (UCP Articles 20, 21)

An independent firm would usually conduct the inspection to ensure that the merchandise conforms to the buyer's criteria. Inspection certificates should be based on quantifiable criteria.

When an L/C is the method of payment, the criteria should be specifically spelled out in the letter of credit.

Weight List or Certificate (UCP Articles 38, 20, 21)

Not synonymous to a packing list. This document breaks down the shipment by weight. This is generally needed only if a "certificate" is required.

USDA Inspection Certificate (UCP Articles 20, 21)

This certificate is issued by the US Department of Agriculture and covers grade and condition for agricultural products. It provides evidence that the produce was in good condition at the date and time of inspection and can be useful in the event of a damage claim.

Phytosanitary Certificate (UCP Articles 20, 21)

Numerous foreign governments and buyers require a "phyto" for fresh plants and plant products. This certificate states that the product has been inspected and is free of harmful pests and plant diseases. They are issued by the USDA Animal and Plant Health Inspection Service.

Packing List (UCP Articles 20, 21)

A mirror of the merchandise covered by the invoice, the packing list omit prices, but itemizes the merchandise by number of cartons, packages, etc., and the contents of each. It generally does not have to be signed unless called for in the L/C.

Other Miscellaneous Documents (Ucp Articles 20, 21)

- Ucp 500 article 21: "when documents other than
- Transport documents, insurance documents and
- Commercial invoices are called for, the credit
- Should stipulate by whom such documents are to be
- Issued and their wording or data content. If the

- Credit does not so stipulate, banks will accept
- Such documents as presented, provided that their
- Data is not inconsistent with any other stipulated
- Document presented."

Selected references to documents in the UCP 500

Document topic UCP 500 articles

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Origin of IMF:

The origin of the IMF goes back to the days of international chaos of the 1930s. During the Second World War, plans for the construction of an international institution for the establishment of monetary order were taken up.

At the Bretton Woods Conference held in July 1944, delegates from 44 non-communist countries negotiated an agreement on the structure and operation of the international monetary system.

Objectives:

Article 1 of the Articles of Agreement (AGA) spell out 6 purposes for which the IMF was set up.

These are:

I. To promote international monetary cooperation through a permanent institution which provides the machinery for consolation and collaboration on international monetary problems.

II. To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objective of economic policy.

III. To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

IV. To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

V. To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with the opportunity to correct maladjustments in their balance of payments, without resorting to measures destructive of national or international prosperity.

VI. In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balance of payments of members.

All these objectives of the IMF may be summarised:

To promote international cooperation; to facilitate the expansion and balanced growth of international trade; to promote exchange stability; to assist in the establishment of a multilateral system of payments; to make its general resources available to its members experiencing balance of payments difficulties under adequate safeguards; and to shorten the duration and lessen the degree of disequilibrium in the international balance of payments of members.

Functions:

The principal function of the IMF is to supervise the international monetary system. Several functions are derived from this. These are: granting of credit to member countries in the midst of temporary balance of payments deficits, surveillance over the monetary and exchange rate policy of member countries, issuing policy recommendations. It is to be noted that all these functions of the IMF may be combined into three.

These are: regulatory, financial, and consultative functions:

Regulatory Function:

The Fund functions as the guardian of a code of rules set by its (AOA— Articles of Agreement).

Financial Function:

It functions as an agency of providing resources to meet short term and medium term BOP disequilibrium faced by the member countries.

Consultative Function:

It functions as a centre for international cooperation and a source of counsel and technical assistance to its members.

The main function of the IMF is to provide temporary financial support to its members so that 'fundamental' BOP disequilibrium can be corrected. However, such granting of credit is subject to strict conditionality. The conditionality is a direct consequence of the IMF's surveillance function over the exchange rate policies or adjustment process of members.

The main conditionality clause is the introduction of structural reforms. Low income countries drew attraction of the IMF in the early years of 1980s when many of them faced terrible BOP difficulties and severe debt repayment problems. Against this backdrop, the Fund took up 'stabilisation programme' as well as 'structural adjustment programme'. Stabilisation programme is a demand management issue, while structural programme concentrates on supply management. The IMF insists member countries to implement these programmes to tackle macroeconomic instability.

Its main elements are:

(i) Application of the principles of market economy;

(ii) Opening up of the economy by removing all barriers of trade; and

(iii) Prevention of deflation.

The Fund provides financial assistance. It includes credits and loans to member countries with balance of payments problems to support policies of adjustment and reform. It makes its financial resources available to member countries through a variety of financial facilities.

It also provides concessional assistance under its poverty reduction and growth facility and debt relief initiatives. It provides fund to combat money- laundering and terrorism in view of the attack on the World Trade Centre of the USA on 11 September 2001.

In addition, technical assistance is also given by the Fund. Technical assistance consists of expertise and support provided by the IMF to its members in several broad areas : the design and implementation of fiscal and monetary policy; institution-building, the handling and accounting of transactions with the IMF; the collection and retirement of statistical data and training of officials.

Maintenance of stable exchange rate is another important function of the IMF. It prohibits multiple exchange rates.

It is to be remembered that unlike the World Bank, the IMF is not a development agency. Instead of providing development aid, it provides financial support to tide over BOP difficulties to its members.

Organisation and Management of the IMF:

Like many international organisations, the IMF is run by a Board of Governors, an Executive Board and an international staff. Every member country delegates a representative (usually heads of central banks or ministers of finance) to the Board of Governors—the top link of the chain of command. It meets once a year and takes decision on fundamental matters such as electing new members or changing quotas.

The Executive Board is entrusted to the management of day-to-day policy decisions. The Board comprises 24 executive directors who supervise the implementation of policies set by the member governments through the Board of Governors.

The IMF is headed by the Managing Director who is elected by the Executive Board for a 5 year term of office.

Rights and obligations, i.e., the balance of Powers in the Fund is determined by a system of quotas. Quotas are decided by a vote of the Board of Governors. Quotas or subscriptions roughly reflect the importance of members in the world economy. It is the quota on which payment obligation, credit facilities, and voting rights of members are determined.

Financial Structure of the IMF:

The capital or the resources of the Fund come from two sources:

(i) Subscription or quota of the member nations, and

(ii) Borrowings.

Each member country is required to subscribe an amount equivalent to its quota. It is the quota on which payment obligations, credit facilities, and voting right of members are determined. As soon as a country joins the Fund, it is assigned a quota which is expressed in Special Drawing Rights (SDRs). At the time of formation of the IMF, the quota of each member was made up of 25 p.c. in gold or 10 p.c. of its net official holdings of gold and US dollars (whichever was less). Now this has been revised.

The capital subscriptions or quota is now made up of 25 p.c. of its quota in SDRs or widely accepted currencies (such as the US dollar, euro, the yen or the pound sterling) instead of gold and 75 p.c. in country's own currency. The size of the Fund equals the sum of the subscriptions of members. Total quotas at the end-August 2008 were SDR 217.4 billion (about $341 billion).

The Fund is authorised to borrow in special circumstances if its own resources prove to be insufficient. It sells gold to member countries to replenish currency holdings. It is entitled to borrow even from international capital market. Though the Articles of Agreement permit the Fund to borrow from the private capital market, till today no such use has been made by the IMF.

Special Drawing Rights (SDRs):

The Special Drawing Rights (SDRs) as an international reserve asset or reserve money in the international monetary system was established in 1969 with the objective of alleviating the problem of international liquidity. The IMF has two accounts of operation—the General Account and the Special Drawing Account.

The former account uses national currencies to conduct all business of the fund, while the second account is transacted by the SDRs. The SDR is defined as a composite of five currencies—the Dollar, Mark, Franc, Yen and Pound. The SDRs are allocated to the member countries in proportion to their quota subscriptions. Only the IMF members can participate in SDR facility.

SDRs being costless, often called paper gold, is just a book entry in the Special Drawing Account of the IMF. Whenever such paper gold is allocated, it gets a credit entry in the name of the participating countries in the said account. It is to be noted that SDRs, once allocated to a member, are owned by it and operated by it to overcome BOP deficits. Since its inception, there have been only four allocation to SDRs—the first in 1970, and the last in 2008-09—mainly to the developing countries.

Instruments of IMF Lending and Loan Conditionality:

The IMF Articles of Agreement clearly state that the resources of the Fund are to be used to give temporary assistance to members in financing BOP deficit on current account. Of course, the financial assistance provided by the Fund is loan. The following technique is employed: If a country calls on the Fund it buys foreign currencies from the IMF in return for the equivalent in the domestic currency.

This, in legal and technical terms, is called a 'drawing' on the Fund. The technique, therefore, suggests that the IMF does not lend, but sells the required currency to the members on certain terms. This unique financial structure of the Fund clearly suggests that the Fund's resources cannot be lent for long time. It is meant to cover short run gaps in BOP.

The IMF's unique financial structure does not allow any member to enjoy financial assistance over a long time period. The total amount that a country is entitled to draw is determined by the amount of its quota. A member is entitled to draw an amount not exceeding 25 p.c. of its quota. The first 25 p.c. called the 'gold tranche' ('tranche' a French Word meaning slice) or 'reserve tranche' can easily be drawn by countries with BOP problems.

This 25 p.c. of the quota is the members' owned reserves and therefore no conditions are attached to such drawings. This may be called 'ordinary, drawing rights; even the Fund cannot deny its use. However, no interest for the first credit tranche is required to be paid though such drawings are subject to repayment within 3-5 years period.

The 'credit tranche' of 100 p.c. each equalling 25 p.c. of a member's quota are also available subject to the IMF approval and hence, 'conditional'.

Originally, it was possible to borrow equal to 125 p.c. of one's quota. At present, borrowing limit has been raised to 450 p.c. of one's quota which must be redeemed within five years.

Borrowing methods used by the Fund are:

(i) Stand-by Arrangements:

This method of borrowing has become the most normal form of assistance by the Fund. Under this form of borrowing, a member state obtains the assurance of the Fund that, usually over 12-18 months, requests for drawings of foreign exchange (i.e., to meet short- term BOP problems) up to a certain amount will be allowed if the country concerned wishes.

However, the stand-by arrangements can be extended up to 3 years while repayments are required to be made within 3-5 years of each drawing. The term "stand-by" here means that, subject to conditionality, a member has a right to draw the money made available, if needed. In most cases, the member does, in fact, draw.

(ii) Extended Fund Facility (EFF):

Stand-by arrangements to stabilise a member's BOP run usually for a period of 12-18 months. Developing countries suffer from chronic BOP problems which could not be remedied in the short run. Such protracted BOP difficulties experienced by the LDCs were the result of structural imbalances in production and trade. It then necessitated an adjustment programme and redemption scheme of longer duration.

In the 1970s, the Fund recognised this idea and built up the EFF in 1974. The EFF is designed to provide assistance to members to meet their BOP deficits for longer period (3-4 years) and in amounts larger in relation to their quotas. Repayment provisions of EFF cover a period of 4-10 years. However, conditions for granting loans are very stringent. Drawings on this account since 2000 stand at over 50 billion dollar in SDRs.

(iii) Compensatory Financing Facility (CFF):

Apart from the ordinary drawing rights, there are some 'special finances' windows to assist the developing countries to tide over BOP difficulties. CFF, introduced in 1963, is one such special drawing provision. Its name was changed to Compensatory and Contingency Financing Facility (CCFF) in 1980, but the 'contingency' was dropped in 2000. Under it, members were allowed to draw up to 25 p.c. of its quota when CFF was introduced.

It can now draw up to 45 p.c. Since the mid- 1990s, this has been the least-used facility.

(iv) Structural Adjustment Facility (SAF) and the Enhanced SAF (ESAF):

In 1986 a new facility—the SAF—was introduced for the benefit of low income countries. It was increasingly realised that the so-called stringent and inflexible credit arrangements were too inadequate to cope with the growing debt problems of the poorest members of the Fund. In view of this, SAF was introduced which stood quite apart from the monetary character of the Fund.

Under it, credit facilities for economic reform programmes are available at a low interest rate of 0.5 p. c compared to 6 p.c. for most Fund facilities. Loans are for 10 years with a grace period of five and a half years. LDCs facing protracted BOP problems can get assistance under SAF provided they agree to undertake medium-term structural adjustment programmes to foster economic growth and improve BOP conditions. An extended version of SAF—ESAF—was introduced in 1987. The ESAF has been replaced by a new facility, called Poverty Reduction and Growth Facility in 1999.

What emerges from the structural adjustment facility is that the IMF's loan is now available to member countries in support of policy programmes. It now insists on the supply side policy 'as a condition' for assistance, in addition to loans meant for short-term BOP difficulties.

(v) Poverty Reduction and Growth Facility (PRGF):

The PRGF that replaced the ESAF in November 1999 provides concessional lending to help the poorest member countries with the aim of making poverty reduction and economic growth —the central objectives of policy programmes. Under this facility, low-income member countries are eligible to borrow up to 140 p.c. of its quota for a 3-year period. Rate of interest that is charged is only 0.5 p. c and repayment period covers 5 1/2-

10 years, after disbursement of such facility. However, financial assistance under this facility is, of course, 'conditional'.

(vi) Supplemental Reserve Facility (SRF):

This instrument provides additional short-term financing to member countries facing exceptional BOP difficulties because of a sudden and disruptive loss of market confidence reflected in capital outflows of countries concerned. Consequent upon the eruption of East Asian financial crisis, the SRF was introduced in 1997.

Till date (March, 2012), the top three largest borrowing nations are Greece, Portugal and Ireland from the IMF.

Strings of Conditionality:

It is to be remembered here that the IMF lending is conditional. Further, the IMF lending is temporary ranging from 1 year to 3 years. Repayment period varies from country to country and from one facility to another. Repayment under PRGF for low income countries is 10 years with a 5 1/2 year grace period on principal payments.

The IMF may be viewed as both a financing and an adjustment-oriented international institution for the benefit of its members. The distinguishing features of the Fund loans are their cost and certain macroeconomic policy conditions. These conditionality requirements range from rather general commitments to cooperate with the IMF in setting policies to formulating a specific, quantified plan for monetary, trade, and fiscal policies.

The IMF practice of tying loans to conditions reflects the dominant influence of the capitalist world. The strings of conditionality's as well as the policy of sanctions that came to the fore in the early 1960s made this international organisation the most controversial institution. This is because of the fact that the conditions set by the Fund cannot constitute a standard solution for deficit countries to the Fund's finances. By attaching conditions to credit facilities, the Fund has assumed the role of a 'neo-colonist'. Some say that the IMF has been acting as 'a rubber stamp for the desires of the US administration'.

The conditionality is always intended to restore internal and external balance and price stability. While formulating specific performance criteria (often referred to as 'conditional loans' that is, 'at the point of a gun'), the Fund prepares 'stabilisation' programme and 'adjustment' programme which member states will be required to adopt to tackle macroeconomic instability.

The programme design involves monetary and fiscal policy measures so that structural adjustment (i.e., reforms aimed at changing the structure of both production and consumption) takes place. Stabilisation is generally regarded as a precondition of structural adjustment policies'.

Thus, stabilisation and structural programmes not only includes monetary and fiscal policies but also exchange rate policy (i.e., devaluation), liberalisation or deregulation, privatisation, reforming institutions to carry governments' new role, freeing markets to determine prices, reforming the labour sector. Almost all stabilisation programmes intend to curb effective demand.

Working of the IMF:

There are two phases in the working of the IMF over the last 65 years. The first phase covers the period late 1940s (i.e., 1947) to 1971. This phase is popularly known as the 'Bretton Woods System'. The IMF system or the Bretton Woods System provides for exchange rate stability in the short run but allowed for the possibility of exchange rate adjustment when a country experienced 'fundamental' disequilibrium in its BOP accounts. Thus, the pegged exchange rate was adjusted in accordance with the IMF. Hence the name 'adjustable peg system'.

As the system was the source of some major problems, it was abandoned in 1971 and more flexibility was introduced in the monetary system. In other words, the demise of the Bretton Woods System made room for the floating exchange rate regime, requiring changes in the role of the IMF. After prolonged negotiations (1973-78), the IMF started its second-leg journey in 1978.

The decade of the 1970s saw massive borrowing by the developing countries. It rose to $600 billion by 1982. Meanwhile, the rise in interest rates in the USA from 1979 and the appreciation of dollar caused tremendous difficulties to the developing countries in servicing their debts. On the other hand, the switch to the floating exchange rate system coincided with the deteriorating economic conditions in the industrialised countries.

Debt crisis that emerged in many developing countries had a dramatic effect. Mexico a Latin American country announced its failure to honour debt obligations. The IMF now played a crucial role to put the international financial system in order. It came in for mobilisation of additional financial resources so as to reduce the debt burden. As a result of this and other related measures, many countries regained access to the international banks and creditors and the severity of the debt problem moderated considerably in Latin America in the early 1990s.

With the breakup of the Soviet Union in 1989, a new category of countries, especially the erstwhile communist countries, joined the IMF. The IMF now came forward to assist countries undergoing transition from a centrally planned economy to a market-oriented economy. Privatisation is indeed a crucial element of the transition process. That is why the IMF is providing financial assistance and technical support for the development of sound economic management and the privatisation of state enterprises.

In 1997, the East Asian financial crisis began when the currencies of the ‘Asian tiger’ economies (South Korea, Singapore, Hong Kong, Taiwan) plummeted, and the stock market crashed. Rescue packages were launched by the IMF under strong authority conditions.

POSSIBLE QUESTIONS
UNIT – III

PART B

1. List out any two functions of World Bank.
2. Write any two functions of world bank
3. Write short note on World Bank.
4. Write short note on World Bank.
5. List out the functions of International monitory fund.

PART C

1. Explain the Documentation Procedure in Export Trade.
2. Explain World Bank and describe its roles in international business
3. Bring out the impact of integration between countries.
4. Explain the role of NAFTA in promoting trade among its member countries.
5. Elucidate the Special Drawing Rights of International Monetary Fund (IMF).
6. Elucidate the objectives and functions of World Bank.
7. Bring out the impact of integration between countries.
8. Explain World Bank and describe its role in international business.
9. Enumerate the main Objectives and Features of International Monetary Fund (IMF).
10. Elucidate the objectives and functions of World Bank.

KARPAGAM ACADEMY OF HIGHER EDUCATION

INTERNATIONAL BUSINESS

POSSIBLE QUESTIONS UNIT - III

Questions	Opt 1	Opt 2	Opt 3	Opt 4	Answer
Which one of the following is a method for an exporter to get a contract?	Performa invoice.	Purchase order.	Sales contract.	Proforma invoice, Purchase order & Sales order	Proforma invoice, Purchase order & Sales order
When the exporter, expects the importer, to make the payment immediately upon the draft being presented to him is called as ______________.	sight draft.	usance draft.	demand draft.	pay note.	sight draft.
Payment by documentary credit includes ______________.	post dated cheque.	letter of credit.	letter of indent	contract of the business.	letter of credit.
_____________ means selling the home countrys goods service in foreign country.	Marketing.	Sales.	Export.	Import.	Export.
Packing list provides the details of number of ______________.	documents.	packages.	goods.	documents, packages & goods	documents, packages & goods
___________ documents are also known as transport documents.	Bill of lading.	Airway bill.	Combined transport document.	Customs bill	Airway bill.
Export policy resolution in 1970 was_______________.	human relation.	marketing function.	quality control.	promoting wealth.	quality control.
The export policy resolution was started in the year _____________.	1966	1970	1982	1994	1970
Packing credit means _______________.	medium term credit.	long term credit.	post shipment credit.	pre-shipment credit.	long term credit.

Expand CIS	Common Institute of Sales.	Common Interdependent sale.	Common wealth of Independent States.	Common independent state.	Common wealth of Independent States.
Expand EOU	Excellent Oriented Units.	Easy Oriented Units.	Export Oriented Units.	Exchange Oriented Units.	Export Oriented Units.
MAI means ______________________	Market Access Iniatives	Market Access Institutes.	Market Access Incentives.	Management Access Incentives.	Market Access Initiatives.
DEPB means ____________________	Duty entitlement Pass Book Scheme.	Duty essential Pass Book Scheme.	Duty entitled Program Book Scheme.	Duty Embedded Pass Book Scheme.	Duty entitlement Pass Book Scheme.
_____________ in export business assumes greater significance as many parties are involved in single transaction.	Taxation.	Documentation.	Marketing.	Banking.	Documentation.
The certificate issued by the EIA after conducting the preshipment inspection is ____________.	certificate of Inspection.	certificate of Transport.	certificate of Export.	export Documentation.	certificate of Inspection.
____________ industry plays a major role in automobile industry.	Tata motors.	Reliance.	Toyota.	Honda.	Tata motors.
How many copies of shipping bills are required during shipping?	1	5	8	10	5
First procedure in exports is ________________.	shipment.	offer & acceptance.	negotiation of documents.	obtaining various incentives.	offer & acceptance.
Which is the maximum limit for short term credit?	60 days.	90 days.	180 days.	360 days.	180 days.

Unless other wise specified in a Letter of Credit which is issued subject to UCPDC 500and also UCPDC 600,documents must be presented for negotiation within _________ days from the date of shipment.	10 days.	7 days.	15 days.	reasonabl e.	7 days.
Full form of CAD is ____________________	Cash Against Documents.	Cash Acceptance Documents.	Credit Acceptan ce Documen t.	Consume r Awarenes s Details.	Cash Against Documents .
Packing credit is the term used for __________________.	medium term Loans.	Preshipment credit.	long term credit.	short term credit.	Preshipme nt credit.
From the point of view of marketing, an organization that enjoys competitive advantage ______________.in an industry has done so by:	creating superior value for customers.	charging lower prices than competition.	constantl y enlarging its marketin g activities.	focusing on long-term profit.	focusing on long-term profit.
When economists argue that banking regulations have been a mixed blessing, they are referring to the fact that _____________.	bank regulations foster competition at the expense of the banking system safety.	bank regulations foster banking system safety at the expense of competition.	branch banking, while desired by consumer s, leads to less competiti on.	bank regulatio ns foster competiti on by limiting branching .	bank regulations foster competitio n at the expense of the banking system safety.
An arrangement in which one company allows another company to use its name, products, patents, brands,trademarks, raw materials, and/or production processes in exchange for a royalty is called _______________.	licensing.	a joint venture.	direct investme nt.	importing .	licensing.

Export Promotion council for Apparel is located in ______________.	Chennai.	Mumbai.	Kolkatta.	New Delhi.	New Delhi.
Export promotion council for engineering goods is situated at ___________.	Chennai.	Kolkata.	Mumbai.	New Delhi.	Kolkata.
The objective of the _________ is to reform trade in the sector and to make polices more market oriented.	market access agreement.	policy agreement.	industrial agreemen t.	agricultur e agreemen t.	agriculture agreement.
Export promotion council for cotton textiles is located in ____________.	Chennai.	Kolkatta.	Delhi.	Mumbai.	Mumbai.
All commodity Boards were set up after independence, except _____________.	tea board.	coffee board.	rubber board.	central silk board.	coffee board.
The Projects & Equipment Corporation of India is a subsidiary body of ____________.	The Board of Trade.	Indian Council of Arbitration.	Indian Institute of Foreign Trade.	State Trading Corporati on.	State Trading Corporatio n.
The Cashew corporation of India is a subsidiary body of _________.	The board of Trade.	Indian Council of Arbitration.	Indian Institute of Foreign Trade.	State Trading Corporati on.	State Trading Corporatio n.
Commodity composition of Indian exports can be broad by classified into _____________ categories.	2	3	4	5	3
___________ is a form of getting payment for exports, by the exporter.	Forfeiting.	Financing.	ECGC.	Financial guarantee s.	Forfeiting.
_______________ is required by a foreign buyer when an exporter wants to quote for a tender.	Bid Bond.	Bank Guarantee for Loans of Foreign Exchange.	Advance Payment Guarante e.	Transfer Guarante e.	Bid Bond.
The finance function in the export department is similar to the finance function in any other ______________.	organization.	country.	non profit organizat ion.	state.	organizatio n.

Export orders or contracts normally stipulate that the buyer should open a ___________ in favour of exporter.	bank account.	letter of credit.	bill of lading.	document of acceptance	letter of credit.
LPG means _________.	Liberalization, Privatization and Globalization.	Leadership, Promotion and Goal Setting.	Liberalization, Promotion and Globalization.	Leadership, Privatization and Globalization.	Liberalization, Privatization and Globalization.
An exporter will require finance to undertake the procurement of raw materials and the manufacture and __________ of the goods meant for export.	packing.	distribution.	advertisement.	shipment.	packing.
The proposal submitted by an exporter is referred to as the _____________.	offer.	order.	statement.	procedure.	offer.
The offer, when accepted by the foreign buyer, becomes an ____________.	entity.	order.	evidence.	escalation.	order.
The offer made by the exporter is usually in the form of a ___________.	profoma invoice.	consignment.	condition.	voucher.	profoma invoice.
The performa invoice is submitted in response to a __________ where the basis acceptable is clearly mentioned.	buyer enquiry.	trader enquiry.	tender enquiry.	schedule.	tender enquiry.
The duplicate copy of the performa invoice is duly signed by ___________, accepting the conditions.	exporter.	importer.	buyer.	creditor.	buyer.
Gate Pass and __________ form should be submitted by the exporter to the superintendent of central excise of the locality from claiming rebate when excise duty is paid	AR 4.	AR 5.	AR 6.	AR 7.	AR 4.

Excise duty will be paid during _____________ stage.	exporting.	manufacturing.	distributing.	marketing.	manufacturing.
The _____________ charges for shipping a cargo are very much less than those of air freight.	freight.	carriage.	inspection.	warehouse.	freight.
_____________ is the more popular method of dispatching goods to an export buyer than dispatch by air.	Couriering.	Railways.	Roadways.	Shipping.	Shipping.
The _____________ agents are specialized personnel who arrange for the completion of all the formalities connected with the shipment of goods.	merchandising.	brokering.	clearing and forwarding.	exporting.	clearing and forwarding.
Export license before shipment should be obtained from ___________.	Government of India.	Customs department.	Joint Director General of Foreign Trade.	Shipping inspector.	Joint Director General of Foreign Trade.
BOL means _____________.	Carting order.	Bill of Lading.	Export permission Letter.	a copy of invoice.	Bill of Lading.
Before the goods are loaded on to the ship, Permission for loading has to be obtained by the exporters forwarding agent from the preventive officer is called as ___________.	customs clearing.	customs examination.	carting order.	let ship order.	let ship order.
CIF means ___________________	Cost of Imported Freight.	Cost of Insurance in Foreign.	Cost Insurance and Freight.	Cost of Inflation Index.	Cost Insurance and Freight.
CI stands for ______________	A. Cost and Insurance.	B. Council and Import.	C. Council and Inspection.	Cost and Insurance.	Cost and Insurance.

When the goods are delivered to the shipping company for transportation, at first a temporary receipt is issued which is known as ___________.	commercial invoice.	bill of lading.	bill of exchange.	mates receipt.	mates receipt.
What is EO?	Export Online.	Export Obligation.	Export Oil refineries.	Export Offer.	Export Obligation.
FOB means __________________	Foreign Oil Board.	Foreign Online Board.	Free On Board.	Foreign Order Board.	Free On Board.
Among the following which one is not included in commodity board.	Tea board.	Rubber board.	Spices board.	Plastic board.	Plastic board.
The trade bodies in India is established by _____________	government of India.	trade authorities.	government of TamilNadu.	commodity boards.	government of India.
Usually beneficiarys bank through which the documents are normally negotiated is called as ______________.	opener.	beneficiary.	opening bank.	negotiating bank.	negotiating bank.

UNIT IV

SYLLABUS

Organisational Structure for International Business Operations - International Business Negotiations. Developments and Issues in International Business - Outsourcing and its Potentials for India - Role of it in International Business - International Business and Ecological Considerations.

Export Finance

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.

Banks and financial institutions extends factoring services to exporters where-in it buys the accounts receivable of the exporter at a discount in exchange for immediate money.

PAYMENT TERMS AND EXPORT FINANCE RESOURCES

Payment Terms- A list of things to consider when determining the best price for your product overseas.

Terms of Sale

Terms in international business transactions often sound similar to those used in domestic business, but they frequently have very different meanings. For this reason, the exporter must know the terms before preparing a quotation or a pro forma invoice.

Preparing Quotes for International Buyers

While a sales contract that spells out the details of a transaction is warranted for larger, more complex deals, a quotation in the form of a Pro Forma Invoice may be sufficient for smaller transactions.

Learn how to prepare Pro forma invoices and the information they should contain and more about how to prepare quotes.

METHODS OF PAYMENTS

A successful export transaction starts with the negotiation of a sales contract and ends with a timely payment. The buyer/importer gets the product they want and pays the seller/exporter a profitable amount as soon as possible. Depending on the parties' comfort with the degree of risk, there are four methods of payment and other issues to consider, as explained below.

Cash In Advance

With Cash In Advance, the buyer pays the exporter before the shipment/export is made. This method benefits the seller, provided all costs were taken into consideration and calculated correctly. See VEDP Fast Facts on terms Ignoring actual cash and the barter system, there are three forms of payment that qualify as cash in advance:

- A wire transfer is the best method of paying, although banks charge ($25-$35) for this service.
- Paying by check is another good option, but payment could be delayed for up to six weeks waiting for clearance from a foreign account. A bank draft is more appropriate for trade.
- A credit card is a viable choice for low dollar amounts, mostly for the convenience of speed and the automatic currency conversion, but the decision will depend on the exporter's product and in-house collections process.

Cash In Advance payment terms may be considered the most "credit-risky" for the importer/buyer, however the terms may allow for a "savings" to the importer if offered with a discount. Often, Cash In Advance payment terms can be less expensive for the importer when viewing the overall process of the sale and compared to the costs for opening a Letter of Credit at their bank. Depending on a product's lead time and the investment required to produce goods for a specific buyer, Cash In Advance terms by "progress payments" can be an attractive payment method.

Letters Of Credit / Documentary Credits

Letters of Credit (L/C) are often called Documentary Credits by some banks to avoid confusion with "Stand-by" L/C, which are used as a "back up" when services are not provided per a sales agreement. Documentary Credits help to remind the parties involved that banks deal strictly in documents; they do not see or handle the actual goods, so attention to detail on the shipping documents is a must. This method of payment involves strict adherence to bank instructions on the types of documents, terms, conditions, and specific wording required. See flow chart page 5.

- Letters of Credit are produced by commercial banks. The importer's bank "opens" a L/C in favor of the exporter, which is based on the importer's credit and the export sale involved.
- The format for Letters of Credit has been standardized by the International Chamber of Commerce (ICC). For instance, uniform codes are used for each line item so that, as an example, line item 45A will always be where the description of goods will be found, and line item code 44C will always be where the latest shipment date is designated.
- The best type of L/C for the seller is one that is based on their proforma invoice and is non-transferable and irrevocable. All L/Cs, unless specified, are considered irrevocable – meaning the buyer/seller cannot back out of the deal after the L/C has been opened and accepted.
- A "confirmed" L/C ensures the exporter will be paid by his or her own bank, even if the importer's bank fails to pay, provided all of the L/C instructions and document requirements are followed. Although additional fees apply, exporters should request importers to open a confirmed, irrevocable and non-transferable commercial L/C. The importer's bank must have a corresponding relationship with a U.S. bank or be creditworthy since the exporter's bank will not confirm the L/C of an unknown bank. Note that in some countries, a confirmed L/C is not always available due to risk factors.

- A disadvantage to an importer (relative to the size of their business) is that their bank charges fees to open a L/C and usually will hold a percentage of collateral during the "validity" of the L/C (it "ties up" their cash).

There are several variations of Letters of Credit, including Export, Sight, Time, Performance, and Stand-By. Before the exporter accepts the Letter of Credit from the importer, it is extremely important for them to review every detail of the L/C. For example, the exporter should consider if the latest ship date referenced in the L/C is acceptable, or if the amount/value of the L/C is correct (a "+" or "–" prefix to the value on the amount stated can actually help prevent delays when the total ends up being different than the exact amount indicated on the L/C).

Documentary Draft

Documentary drafts are a standardized document available to the exporter by their bank and used to execute the payment terms for a sale. Drafts are filled out by the exporter/seller and sent with the shipping documents to the presenting bank – the bank in the buyer's country. Copies are sent to the exporter's bank and the two banks become "witnesses" to the transaction.

The original shipping documents are released by the presenting bank as the importer/buyer "accepts" the draft with a payment schedule of 30/60/90 days "tenor" or pays the draft "at sight." Then, the presenting/buyer's bank sends the payment to the seller's bank.

- Documentary drafts are also standardized by Uniform Customs and Practices (UPC 600).
- Documentary drafts involve a slight risk for the exporter compared to a confirmed L/C since there is no guarantee of a payment.
- Payments by documentary drafts are less costly than documentary drafts to process for the importer. For the exporter, they have the advantage of allowing the shipment to be without the stipulations of a L/C. For example, a L/C may have a "latest ship date" that is impossible to meet because of product

availability or production delay requiring an amendment to the L/C which, if accepted, will add a fee to the cost of the sale.

- With this payment term, the exporter need not wait for a L/C to be opened from the importer's bank - if the goods are ready to ship, the exporter just needs the buyer's bank information to send the Documentary Draft.
- Using Documentary Drafts for collections is a good step in building a long-term relationship with a client. The documentary draft process signals more trust, less costs to the importer, and may be used as a gauge for the exporter to decide when to offer Open Account terms.

Open Account

Open account means the exporter is extending credit to the buyer as a contractual relationship.

- The importer agrees to pay at a later time. Terms offered by the exporter may be 30/60/90 and sometimes 120 days after the date of the Commercial Invoice or Bill of Lading.
- The exporter's credit and collections/finance department monitors the customer's account in their billing/accounting system designating the transaction involved and payment due date.
- Open Account payment terms may be considered the most "credit-risky" for the exporter and should not be offered until they have determined that the importer has a good reputation for making payments.

Credit Insurance

EX-IM also provides credit insurance at very reasonable prices which protects U.S. exporters against the risks of non-payment by foreign buyers for political or commercial reasons. EX-IM assumes the risks banks will not accept—as long as there is reasonable assurance of repayment.

Pre-Export Financing

EX-IM's working capital financing can help U.S. exporters obtain loans to produce or buy goods or services for export. These working capital loans are made by commercial lenders and backed by an EX-IM guarantee. Exporters may use the guaranteed financing to:

- Purchase finished products for export;
- Pay for raw materials, equipment, supplies, labor and overhead to produce goods and/or provide services for export;
- Cover Standby L/C serving as bid bonds, performance bonds, or payment guarantees;
- Finance foreign receivables.

To be eligible for working capital loans:

- Exporters must be located in the U.S., have at least a one-year operating history, and a positive net worth;
- Exports must be shipped from the U.S.;
- Products must have at least 50% U.S. content. If less than 50%, then Ex-Im can only support the export up to the percent of the U.S. content;
- Services must be performed by U.S.-based personnel;
- Military or defense items are generally not eligible, nor are sales to military buyers (with certain exceptions).

Payment terms as a means of financing your exports

Your financing requirements begin at the time you decide to enter the export market, but the serious financing requirements start once you get the order. The contract that you negotiate with the importer dictates:

- How you will be paid
- When you will be paid
- For what you will be paid

These are referred to as your 'payment terms'. All of these factors impact on your post-contract financing requirements. Take, for example, if you agree to be paid in 90 days. This will mean that you will not see any money from the buyer for 90 day.

Negotiating payment terms

It is highly likely as you become increasingly involved in exporting, that a point will come where you have to negotiate an export sale. During these negotiations, the importer is most likely going to ask you what payment terms you offer. A payment term refers to the way payment will be made as well as the period over which you will allow the importer to pay for the goods. Such payment/credit terms are important in international trade as they can be used to competitive tool to attract business for your firm, but they can also be used by the importer against you.

Risk to the importer

If your goods are not up to standard and the importer has already paid you, they will have lost out. Once you have received your money, it is very difficult for the importer to exert any influence over you. You may argue that you are a reputable company and that you would never renege on a contract or that you will always provide after-sales service, but the importer may not be willing to take a chance with a company that they do not know and that is also very far away.

If the importer is in a stronger position, then you may be obliged to offer payment terms. What is more, if payment terms are being offered by your competitor or if payment terms are normal in the industry or country that you are competing in, then may again be obliged to offer such terms.

Know the market before negotiating payment terms

It is important, therefore, before you begin negotiating with the importer, to know exactly what circumstances prevail in the industry or country that you are competing in. Payment terms ranging from 30 to 90 days are quite common in export markets. Be very careful when extending longer payment terms, as longer credit periods may increase the risk of default.

Always undertake a credit check on the importer

Also you need to be aware of your own importance that you attach to this sale. It would also be worthwhile having undertaken a credit check on the company you plan to do business with. With this knowledge you will be in a better position to decide whether to offer credit or not. Bear the cost of financing and method of payment in mind.

Pricing as a financing mechanism

Clearly, the export price that you agree to with the foreign buyer impacts on the income you generate and your ability to pay for your export endeavors. If you price too low, there may be little or no profits with which to finance your exports. Price too high, then you can pay back any export-related costs more quickly, but you stand to lose the order because your price is too high.

Absorbing the credit costs into your export price

In the instance where you decide to offer relatively short-term credit (say between 30-60 days) to the foreign buyer, and your firm has the capacity to do so, it may be worthwhile to absorb the credit costs into your export price. You would include these credit costs as part of your costing exercise.

Converting export receivables into cash

There are several ways to turn export receivables (the monies owned to you by the importer) into cash. They are as follows:

- Confirming
- Factoring
- Forfaiting

Confirming

Confirming is a financial service in which an independent company confirms an export order in the seller's country and makes payment for the goods in the currency of that country. Among the items eligible for confirmation (and thereby eligible for credit terms) are the goods themselves; inland, air, and ocean transportation costs; forwarding fees; custom brokerage fees; and duties. For the exporter, confirming means that the entire export transaction from plant to end user can be fully coordinated and paid for over time.

Factoring

Factoring (also known as debit financing) involves the discounting of your foreign account receivable to a specialist factoring house - an organisation that specialises in this form of financing. A factoring house will probably be prepared to offer you more (up to 80%) for the value of your accounts receivables than a bank, but will only provide financing for work already done and for which you have invoiced the importer. Once the final payment is received from the importer, you will receive the remainder of your outstanding monies, less the factoring house's financing charges (which will probably be a few percent higher than the standard rate for an overdraft). Essentially you would transfer your title to your foreign accounts receivable to the factoring house for cash at a discount on the face value. Although factoring is sometimes done without recourse to the exporter, the specific arrangements may vary and need be verified by the exporter. Factoring is usually not available where a draft is involved.

Forfaiting

Forfaiting is a form of bill discounting, yet it is usually provided without recourse to exporter in the event of non-payment at the maturity of the bill (but this may differ from forfeiting agency to forfeiting agency and so it is important that you confirm this with the agency concerned). Forfaiting enables exporters to convert a credit sale into a cash sale. The reason for this is that forfeiting involves selling your longer-term accounts receivable or promissory notes from a foreign buyer to a specialist agency such as a bank that does forfeiting (not all banks are involved in forfeiting). The forfeiting agency would pay you for the value of the accounts receivable, less a discount, which represents their fee. The difference between factoring and forfeiting is that while factoring is essentially a loan based on your accounts receivables, forfeiting is the outright sale of your accounts receivable. Forfaiting is often used in instances where you will be paid in stages and is used for financing high-value goods, such as construction projects.

Alternative sources of financing

There are several alternative sources of financing. For example, the Industrial Development Corporation provides financing for capital and other types of exports. The Small Enterprise Development Agency (seda) assists in finding financing for small businesses and there is no reason why this should not include small exporters. Various regional development agencies provide financing for local firms and you might want to consider these.

Getting buyers and suppliers to help

Do not loose site of the possibility of the buyer helping to finance the sale. To begin with the buyer may be prepared to put down a deposit to help finance the deal. In addition, they may be prepared to make periodic progress payments based on a third-party report or some other confirmation that certain agreed-upon percentages of the project have been completed.

Using export intermediaries to help finance your exports

If you are a small exporter and simply cannot find the money to finance your export project, you could turn to an export agent or an export trading house to help you. In this instance, they would probably take over the deal completely and may simply pay you for the goods which they would then sell to the importer making whatever mark-up they choose. If financing is required, they may be in a better position to obtain the financing required to cover the export sale, but they would expect a substantial reward for their involvement and your profits are likely to be cut quite substantially.

Managing your export risk

Introduction

There are many risks involved in exporting and in this section we briefly cover the main risks you are likely to encounter. Follow the links below to learn more about the risks in question:

- Credit risk
- Poor quality risk
- Transportation and logistics risks
- Legal risks
- Political risks
- Unforeseen risks

- Exchange rate risks
- Cultural and language risks
- Managing your risks

Companies need to develop a professional approach when entering the field of exporting. The company's management will have to be extremely committed and will need to devote time and money to starting up their export campaign. Companies will also face greater competition and more stringent rules and regulations pertaining to products and packaging. There are a number of risks facing exporters, while there is an element of risk in all commercial transactions, the complexity of the environments that exporters must operate in, multiplies these risks.

Credit risk

In most instances - mainly because of the large distances and alien environments involved - it is generally difficult for the exporter to verify the creditworthiness and reputation of an importer. If the creditworthiness of a foreign buyer is unknown there is the increased risk of non-payment, late payment or even straightforward fraud.

It is essential, therefore, that the exporter should strive to determine the creditworthiness of the foreign buyer. There are many commercial firms that can provide assistance in credit-checking foreign companies. In addition, the exporter should insist (particularly if the foreign buyer is unknown) for a secure method of payment such as an irrevocable documentary credit. The exporter could approach his bank in South Africa for assistance regarding international payment procedures.

Poor quality risk

If the goods to be exported are not inspected before they are shipped by an independent third-party, the exporter may find his entire shipment being rejected on arrival at the importer's premises due to the poor quality of the goods. Some unscrupulous importers may do this just to put pressure on an exporter and to try and negotiate a lower price. Experienced importers may request a pre-shipment inspection, to be conducted by an independent inspection company. If they don't, then it may be worth suggesting to the importer during the negotiation stage that such an inspection be carried out as part of the contract. Such an inspection protects both the importer and the exporter.

Transportation and logistics risks

With the movement of goods from one continent to another, or even within the same continent, goods face many hazards. There is the risk of theft, damage and possibly the goods not even arriving at all.

The exporter must understand all aspects of international logistics, in particular the contract of carriage. This contract is drawn up between a shipper and a carrier (transport operator). Exporters and importers must understand their legal rights to claim against carriers. The "shipper", would be the party that pays the main carrier of freight and this could be either the exporter or the importer, dependent upon the Incoterm (see section on Incoterms 2000, ICC publication) under which that particular transaction was effected.

Legal risks

International laws and regulations change frequently and/or may be applied differently from that of the exporter's own country. It is therefore important that the exporter drafts a contract in conjunction with a legal firm, thereby ensuring that the exporter's interests are taken care of. The exporter should draw up a checklist of basic legal questions aimed at the imported prior to signing any formal contract.

In particular the exporter should be clear as to which law and dispute-settlement procedure will apply to the contract (known as the jurisdiction of the contract). The exporter may wish to impose choice of law and choice of forum clauses, which state that disputes will be settled under the exporter's own national law and courts.

Political risk

The political stability of a foreign country into which a company is exporting is of the utmost importance. Exporters must be constantly aware of the policies of foreign governments in order that they can change their marketing tactics accordingly and take the necessary steps to prevent loss of business and investment.

Instability in the target market could lead to losses resulting from war, civil strife and political instability. It is essential to warn exporters to be aware of government intervention in the target market. Most countries world-wide operate under a capitalist system within which the volumes and values of goods and services whether provided locally or by way of imports, are set by the forces of supply and demand.

Unforseen risks

A natural disaster or terrorist action in a particular country could completely destroy an export market for a company. Unexpected occurrences may also increase the cost of transport causing great loss to the exporter. It is therefore important that the exporter ensures that a force majeure clause be included in any international contract the exporter concludes.

Exchange rate risks

All South African exporters face this risk on a daily basis, as our South African Rand strengthens or falls against other major currencies, it is difficult for South African exporters to predict the movement of the Rand, thus resulting in speculation on the part of the exporter on the likely direction of movement of the currency (i.e. up or down). Ultimately one party will benefit over the other. The easiest way to overcome this is to quote in one's own currency namely the SA Rand. A strategy that the exporter could follow in order to protect against the influence of exchange rate movements is to hedge against such movements through the purchase of forward exchange rate contracts.

Culture and language risk

Misunderstandings in communication and in international trade transactions arise because in most instances the importer and exporter come from different cultures and express themselves with different languages. In most instances business practices, tax systems, rules and regulations, accounting methods, currency controls and customs systems all differ from that of the exporter's own country.

The exporter must ensure that he fully understands these differences and often an in-market visit to the intended country of export will greatly assist the seller in having a better understanding of his intended market place and the culture differences (s)he may encounter.

Managing your risks

The task of managing your export-related risks begins with known what the risks. Your first step is therefore to identify the risks that you are likely to encounter and to give some 'weighting' to the seriousness of the risk. The more serious it is, the more attention you will need to give to addressing the risk in question. With some of the risks outlined above, you can obtain insurance to cover the risk. Three main types of risk cover include credit risk cover, country risk cover and transit risk cover - these are discussed below.

Negotiating and quoting in exports

Introduction

Once you have done all of your planning and preparation and put together an export strategy and plan, you need to begin implementing this plan. The plan has many facets to it and one of these is to approach your customers, convince them to buy from you, negotiate a deal and price that that they find acceptable, and present them with a quote which hopefully they will accept. This represents the start to the actual export transaction and represents the selling process, involving negotiating with and quoting to customers.

The selling process

It sounds easy, but the negotiating and quoting process is the key to the success of your export endeavours. As with any business, success is based on closing sales. Without sales, there is no business. All of the market research done, advertising undertaken, e-mails sent, and buyers approached, or trade fairs attended is worth nothing if you cannot close the sale. There is much theory written and models proposed about the selling process, but in this section we try to put forward as practical an approach as possible.

In the selling approach we propose, there are eight steps. These are:

- Deciding who will do the selling?
- Prospecting for buyers

- Doing a preapproach
- Approaching the buyer
- Making the presentation
- Overcoming objections
- Closing the sale
- Following up

The process outlined above is not strictly linear. It is more like a spiral, each step feeding back and influencing the others as the process overall moves forward toward the close (assuming you do it right). The salesperson knows that selling is a process of evaluation and reevaluation - both for the salesperson and for the prospective customer.

- **Deciding who will do the selling?**

The first step in the selling process is deciding on who will do the selling. For smaller export companies, it will probably be the owner, managing director, or marketing/sales manager (where one exists) that will do the actual selling. In bigger companies that have an export department, it will probably be the export manager, but in very large companies with extensive export operations, they may employ a professional sales force in one or more countries that undertake the selling process in the countries they are responsible for.

Consider a sales team

Even if you are a relatively small firm, you may still want to consider forming a small export sales team, perhaps with your marketing/sales manager and/or a company technical expert (an engineer, for example). For those owners that are determined to be part of the export sales process, doing it as a team is a good option. Firstly, you can select staff to support you that are good in areas that you are no. For example, they may be technically more knowledgeable than you, or they may be better at selling than you, or they be able to speak a language (such as German) that you could put to use in your selling efforts, or they may have a more suitable personality for selling in foreign cultures.

Secondly, working as a team is often a good sales strategy, as it allows you the opportunity to share the selling duties, concentrate on different aspects of the selling process, or allow yourselves a chance to discuss and confirm your feelings about a new development or aspect of the sales proposition.

For larger companies, approaching the export sales task as a team is strongly recommended. Contracts are often large and complex enough to justify a team approach.

- **Prospecting the buyers**

Prospecting is the process of gathering a list of potential customers or buyers. After all, before you can approach a particular buyer, you need to know who the buyer is. Generally you will identify your list of buyers at the same time as undertaking your export marketing research. Indeed, one of the objectives of your research effort should be to come up with a list of potential buyers.

But compiling a list of buyers is not enough. You still need 'qualified' these buyers, which means that they need to be assessed to see if there is business potential, otherwise you could be wasting your time. In order to qualify your foreign prospects, you need to:

Focus on the needs of the customer

- Determine which products or services you produce best meet their needs
- In order to save time, rank the prospects and leave out those that are least likely to buy from you (and obviously start with those with the most potential)

Buyers versus end-users

It is worth considering that your buyer may not be the end user of your product. For example, if you sell children's toys, the end user may be the child that uses your product and the parent that buys the toy, but your customer may be an import agent or wholesaler of toys in the target market you have selected.

- **Doing your preapproach**

At this point you now have compiled a list of qualified buyers (perhaps five to ten firms or even more) that you think are likely buyers of your firm's products. The next step is to prepare your approach to these companies. To do this, you will attempt to identify possible problems in the customer's firm where your product could provide a solution. At this stage you would also consider various selling objectives which take into account the marketing environment and the specific situation of the customer's firm.

Approaching the buyer

This step can be further divided into two parts:

a) Making the appointment

The first is to make an appointment with the buyer. Most foreign buyers will be interested in meeting with foreign suppliers, even if only out of curiosity's sake, but you still need to take care as to how you phrase your introduction. Your introduction will also depend on what medium you use (fax, e-mail, letter or telephone).

b) The appointment itself

The second part of the approach is actually calling on the buyer. This is perhaps the toughest part of the selling process. It involves introducing yourself and making a "connection" with the buyer. Here you need to be very careful, as different cultures deal with business introductions differently. Read up on how the business etiquette in the country you are visiting. Make sure that you are on time - this is very important in many cultures (even if the buyer arrives late, this does not matter).

A good firm handshake is always a good start and bow if this is appropriate in the country you are visiting. Greeting the buyer in his home language is also a sign of respect (at which point you would of course switch back to English). Thank the buyer for giving you the time to meet with him/her. A business card is essential and this will usually be swapped early on in the meeting. Dress appropriately. Be circumspect about giving gifts and get advice about gifts beforehand. Also be careful about using humour.

During this stage you would also try and learn more about the buyer him/herself in order to establish a bond with him/her. Unfortunately, there is often very little time to do this in, while many factors may interfere with the process. Make sure that you've done some homework before meeting your prospect. This will show that you are committed in the eyes of your customer. Keep a set of samples at hand (where appropriate), and make sure that they are in very good condition.

Evaluating the customer's needs and buying situation

At this point, you will want to obtain some facts and figures related to the needs of the buyer, so that you can determine whether you can satisfy these needs. You will also want to inform your buyer about your products and deal with any concerns the buyer may have about your firm and its products. With some products you may not be able to present a final proposition to the buyer because you still need to make some calculations back at your office. In these instances, tell the buyer what you plan to do and stick to this schedule.

- **Making a presentation**

In the selling process, there will be a time when you present your company and its products to the buyer - this is what the meeting is all about. Be careful about leaving before having done this presentation. Sometimes you may have only a few minutes to do this and you will only be able to do this verbally; on other occasions you may have an hour or more to deliver your presentation and you will be able to support your verbal presentation with slides, graphics, photographs and even videos.

Presentation tips

Some additional tips for your presentation:

- Be enthusiastic about your product or service. If you are not excited about it, do not expect your prospect to get excited.
- Focus on the real benefits of the product or service to the specific needs of your client, rather than listing endless lists of features.
- Try to be relaxed during the meeting, and put your client at ease.
- Let the client do at least 80% of the talking. This will give you invaluable information on your client's needs.

- Remember to ask plenty of questions. Use both open-ended questions and 'yes' or 'no' questions. This way you can dictate the direction of the conversation.
- Never be too afraid to ask for the business straight off, but do so with respect.
- Stages of presentation
- Your presentation (whether a short five minute one or a longer hour presentation or even a digital or hardcopy presentation) should strive to achieve five things:
- Attention: Get the buyer's attention
- Interest: Get the buyer interested in what you have to
- Desire: Get the buyer to want what you have to offer
- Conviction: Get the buyer to believe that your offer is a good one for his firm
- Action: Get the buyer to sign an agreement/contract
- The first two steps will in most cases be easy to achieve. The fact that you have travelled far afield to visit the buyer will probably ensure his/her attention and interest. If, however, you are selling something that the buyer does not believe that you or your country is a recognised seller of (such as selling brandy to France), then you may still have to focus on these two steps.

The last three steps will possibly more difficult to achieve in foreign markets because of the distance involved and the question mark on matters such as reliability and complexity of supply, the costs involved, the uncertainty about service, etc.

- **Overcoming objections**

In almost all sales presentations, local and foreign, the buyer will have certain reservations about the company, the products and entering into an agreement with your company. In the foreign sales environment, overcoming these objections is even more difficult because of the complexity of the foreign communications and cultures involved. Some objections may prove too difficult to handle, and sometimes the buyer may just take a dislike to you (also known as "the hidden objection").

Approaches for handling objections

Objection handling is the way in which salespeople tackle obstacles put in their way by clients. Here are some approaches for overcoming objections:

- Firstly, try to anticipate objections before they arise.
- Do not allow objections to grow into an argument.
- Objections often have merit, especially from the buyer's point of view. If necessary, acknowledge the objections, provide some simply counter arguments in an amicable and friendly way and then move on. Do not simply ignore or wave the objections away.
- Do not follow a confrontational approach and try and be more superior than the buyer - show respect.
- The 'yes but' technique allows you to accept the objection and then to divert it. For example, a client may say that they do not like a particular colour, to which you may counter 'Yes but the product is also available in many other colours.'
- Ask 'why' the client feels the way that they do.
- 'Restate' the objection and put it back into the client's lap. For example, the client may say, 'I don't think the product will work in this country,' to which you could respond, "Is it that you don't think the product will work in this country because of the different power supplies being used?', generating the response "No, we have different national standards compared with South Africa; and we have tried it before". You may be able to counter with the comment that you have no adapted the product to meet their national standards authority and that you have received national certification for the product.

The sales person could also tactfully and respectfully contradict the client, but you need to be very careful how you do this.

- **Closing the sale**

This the most important stage of the selling process and often salespeople leave without ever successfully closing a deal. It is at this point where you need to employ an affective means of bringing the buyer to a decision. In the foreign environment where you are not familiar with the culture and language, it may be very difficult for you to gauge when to try and close the sale. If you do it too soon, the buyer may feel that you are being too 'pushy' and may withdraw from the discussion. Leave it too long and the buyer may get bored and frustrated with your presentation with the same ultimate effect.

Some tips for closing the deal:

- Just ask for the business! - 'Please may I take an order?' This often works well.
- Look for buying signals (i.e. body language or comments made by the client that they want to place an order). For example, asking about availability, asking for details such as discounts, or asking for you to go over something again to clarify.
- Just stop talking, and let the client say 'yes.' Again, this again works well.
- The 'summary close' allows the salesperson to summarise everything that the client needs, based upon the discussions during the call. For example, 'You need 12 000 items of product X in blue, packaged as we discussed, and delivered in Hamburg by the end of February' Then ask for the order.
- The 'alternative close' does not give the client the opportunity to say no, but forces them towards a yes. For example 'Do you want product X in blue or red?' Cheeky, but effective.
- It is important to realise that closing the sale is really about getting the buyer to agree to buy from you. The first step is really simply a verbal agreement to the parameters of the order that the two of you have discussed the past hour or so.

To begin with, in most instances it is unlikely that the buyer will agree to the order immediately. The buyer more likely will want

(a) Specifications both in terms of capacity and price that you may still need to confirm back home,

(b) Some time to think about the order (in some countries such as Japan, it may take many, many visits and several years of interaction, negotiation and discussion before you ever receive an order),
(c) A formal quotation on which to make the decision.

A few flamboyant exporters may tell you that you should not walk out of the buyer's office without a signed order form, but it is seldom as easy as this. Because of the many cultural and language differences, a single order form is unlikely to suffice in all instances. The requirements between buyers may also vary drastically especially as you move from country to country. Finally, most export orders are confirmed on the basis of a quotation, which usually takes the form of a proforma invoice.

In many instances, the actual closing of the sale often takes place away from the original meeting and forms part of the follow-up process that is key in the export selling process.

- **Following up the sale**

As we said above, the follow-up is an important part of selling process especially in export markets. Depending on whether the agreement was signed at the time of the sales presentation, you will either want to (a) thank the buyer for his time and custom, and assure him of your attention to the supply of the goods sold, or (b) thank him for the meeting and provide a proforma invoice that covers all of the issues that the buyer asked you to address (these may have had to do with quality, quantity, price, colour, specifications, delivery dates, insurance, freight, etc.). We deal with the preparation of the proforma invoice in the section on quoting for exports.

Export-Import Bank of India

Export-Import Bank of India is the premier export finance institution in India, established in 1982 under the Export-Import Bank of India Act 1981. Since its inception, Exim Bank of India has been both a catalyst and a key player in the promotion of cross border trade and investment. Commencing operations as a purveyor of export credit, like other Export Credit Agencies in the world, Exim Bank of India has, over the period, evolved into an institution that plays a major role in partnering Indian industries, particularly the Small and Medium Enterprises, in their globalisation efforts, through a wide range of products and services offered at all stages of the business cycle, starting from import of technology and export product development to export production, export marketing, pre-shipment and post-shipment and overseas investment.

Export-Import Bank of India: Objectives and Functions

The Export-Import Bank of India was set up by the Government of India on January 1, 1982. Its main objects are:

- To ensure and integrated and co-ordinated approach in solving the allied problems encountered by exporters in India.
- To pay specific attention to the exports of capital goods;
- Export projection;
- To facilitate and encourage joint ventures and export of technical services and international and merchant banking;
- To extend buyers' credit and lines of credit;
- To tap domestic and foreign markets for resources for undertaking development and financial activities in the export sector.

The functions of Exim Bank include:

- Planning, promoting and developing exports and imports;
- Providing technical, administrative and managerial assistance for promotion, management and expansion of export sector.
- Undertaking market and investment surveys and techno-economic studies related to development of exports of goods and services.

The EXIM Bank has a 17-member Board of Directors, with Chairman and Managing Director as the chief executive and full-time director. The Board of Directors consists of the representative of the Government of India, RBI, IDBI, ECGC, commercial banks and the exporting community.

The authorised capital of EXIM Bank is Rs. 200 crores, of which Rs. 75 crores is paid up. The banks have secured a long-term loan of Rs. 20 crores from the Government of India. It can also borrow from the RBI. It is empowered to raise resources in domestic and international markets.

The Bank began its lending operations from March, 1982. Till June, 1982, it has extended assistance up to Rs. 133 crores to the export sector in various ways.

The establishment of Exim Bank may be regarded as a right step in the export promotion policy and programmme of the Government.

During 1984, the Exim Bank sanctioned various programmes of funded assistance of Rs. 430 crores. It also launched a new programme to provide term finance for export-oriented units, under which assistance was provided through a consortium for establishing a 100 per cent export unit in the ceramics industry.

The EXIM Bank also extended its financial assistance to Indian exports through letters of credit, re-lending facility, export bills rediscounting, overseas investment finance, facilities for deemed exports and assistance to hundred per cent export units and units in free trade zone.

At the end of December 1984, the Exim Bank’s outstanding underfunded and non-funded assistance amounted to Rs. 415 crores and Rs. 510 crores, respectively.

In 1984, the Exim Bank signed a loan agreement to borrow one billion yen from the Japanese commercial yen market.

In June 1986, the Exim Bank introduced a new programme called the Export Marketing Fund (EMF), under which finance is made available to Indian companies for undertaking export marketing activities. The programme also covers activities like desk research, minor product adaptation, overseas operations and travel to India by buyers overseas. During 1986, Rs. 78 lakhs were sanctioned, while Rs. 3.4 lakhs have been utilised under the EMF.

On whole, the Exim Bank concluded an agency credit line of US $ 15 million with the International Finance Corporation (IFC).

During 1994-95, Exim Bank sanctioned Rs. 2,466 crore and disbursed Rs. 2,130 crore of financial assistance under various lending project.

Activities of Exim Bank:

The bank can raise additional resources through borrowing from Government of India, from RBI and from the market through the issue of bonds and debentures. Exam bank also provides refinance facilities to the commercial bank and financial institutions against their export-import financing activities.

During the Year ending on 31 March, 2003, Exim Bank sanctioned loans of Rs. 7,828 crores while disbursements amounted to Rs. 5,320 crores, Net Profit (before tax) of the bank for the period 2002-03 on account of General Fund amounted to Rs. 268 crore.

Organization

EXIM Bank is managed by a Board of Directors, which has representatives from the Government, Reserve Bank of India, Export Credit Guarantee Corporation of India, a financial institution, public sector banks, and the business community.

The Bank's functions are segmented into several operating groups including:

- Corporate Banking Group which handles a variety of financing programmes for Export Oriented Units (EOUs), Importers, and overseas investment by Indian companies.
- Project Finance / Trade Finance Group handles the entire range of export credit services such as supplier's credit, pre-shipment Agriculture Business Group, to spearhead the initiative to promote and support Agricultural exports. The Group handles projects and export transactions in the agricultural sector for financing.
- Small and Medium Enterprise: The group handles credit proposals from SMEs under various lending programmes of the Bank.
- Export Services Group offers variety of advisory and value-added information services aimed at investment promotion.

- Export Marketing Services Bank offers assistance to Indian companies, to enable them establish their products in overseas markets. The idea behind this service is to promote Indian export. Export Marketing Services covers wide range of export oriented companies and organizations. EMS group also covers Project exports and Export of Services.

Besides these, the Support Services groups include:

- Research & Planning,
- Treasury and Accounts,
- Loan Administration,
- Internal Audit,
- Management Information Services,
- Information Technology,
- Legal,
- Human Resources Management and
- Corporate Communications.

Pre-shipment and Post-Shipment Finance

The term 'export finance' refers to credit facilities and techniques of payments at the pre-shipment and post-shipment stages. Export finance whether short-term or medium term, is provided exclusively by the Indian and foreign commercial banks which are the members of the Foreign Exchange Dealers Association.

The Reserve Bank of India (RBI) and the Industrial Development Bank of India (IDBI) provide refinance facilities to the commercial banks. Export-Import Bank of India (commonly known as EXIM Bank) also extends finance to exporters and to overseas projects abroad joint ventures and construction projects abroad.

Pre-shipment Finance:

Pre-shipment finance refers to the financial assistance provided to the exporters before actual shipment of goods. Pre-shipment finance is provided to the exporters for the purposes like purchase of raw materials, their processing and converting into finished goods and packaging them.

For these purposes, the following pre-shipment finance is made available:

- Packaging credit
- Advance against Incentives
- Advance against Duty Drawback.

Pre-shipment credits are granted by the banks under concessional rates of interest at 7.5 per cent. Credit can be extended up to a maximum period of 6 months.

Post-Shipment Finance:

Post-shipment finance may be as "any loan or advance granted or any other credit provided by a bank to an exporter of goods from India from the date of extending the credit after shipment of goods to the date of realization of export proceeds."

Thus, post-shipment finance serves as bridge loan for the period between shipment of goods and the realization of proceeds. Such loan is usually provided for a maximum period of 6 months. Interest is charged at the rate of 8.65 per cent.

Business involves risk but export business is more prone to risks. With a view to reduce risk element in export business, the government has set up the Export Credit and Guarantee Corporation (ECGC) which provides export assistance in the form of insurance cover and guarantees. There is also an Export Inspection Council of India (EICI) which extends financial assistance to the exporters for the quality control purposes.

Types of Pre Shipment Finance

- **Packing Credit**

Advance against Cheques/Draft etc. representing Advance Payments. Pre shipment finance is extended in the following forms :

- Packing Credit in Indian Rupee
- Packing Credit in Foreign Currency (PCFC)
- Requirment for Getting Packing Credit
- This facility is provided to an exporter who satisfies the following criteria
- A ten digit importer exporter code number allotted by DGFT
- Exporter should not be in the caution list of RBI.
- If the goods to be exported are not under OGL (Open General Licence), the exporter should have the required license /quota permit to export the goods.

Packing credit facility can be provided to an exporter on production of the following evidences to the bank:

Formal application for release the packing credit with undertaking to the effect that the exporter would be ship the goods within stipulated due date and submit the relevant shipping documents to the banks within prescribed time limit.

Firm order or irrevocable L/C or original cable / fax / telex message exchange between the exporter and the buyer.

Licence issued by DGFT if the goods to be exported fall under the restricted or canalized category. If the item falls under quota system, proper quota allotment proof needs to be submitted.

The confirmed order received from the overseas buyer should reveal the information about the full name and address of the overseas buyer, description quantity and value of goods (FOB or CIF), destination port and the last date of payment.

Eligibility

Pre shipment credit is only issued to that exporter who has the export order in his own name. However, as an exception, financial institution can also grant credit to a third party manufacturer or supplier of goods who does not have export orders in their own name.

In this case some of the responsibilities of meeting the export requirements have been out sourced to them by the main exporter. In other cases where the export order is divided between two more than two exporters, pre shipment credit can be shared between them

Quantum of Finance

The Quantum of Finance is granted to an exporter against the LC or an expected order. The only guideline principle is the concept of NeedBased Finance. Banks determine the percentage of margin, depending on factors such as:

- The nature of Order.
- The nature of the commodity.
- The capability of exporter to bring in the requisite contribution.
- Different Stages of Pre Shipment Finance

Appraisal and Sanction of Limits

1. Before making any an allowance for Credit facilities banks need to check the different aspects like product profile, political and economic details about country. Apart from these things, the bank also looks in to the status report of the prospective buyer, with whom the exporter proposes to do the business. To check all these information, banks can seek the help of institution like ECGC or International consulting agencies like Dun and Brad street etc.

- The Bank extended the packing credit facilities after ensuring the following"

- The exporter is a regular customer, a bona fide exporter and has a goods standing in the market.
- Whether the exporter has the necessary license and quota permit (as mentioned earlier) or not.

- Whether the country with which the exporter wants to deal is under the list of Restricted Cover Countries(RCC) or not.
- Disbursement of Packing Credit Advance

2. Once the proper sanctioning of the documents is done, bank ensures whether exporter has executed the list of documents mentioned earlier or not. Disbursement is normally allowed when all the documents are properly executed.

Sometimes an exporter is not able to produce the export order at time of availing packing credit. So, in these cases, the bank provide a special packing credit facility and is known as Running Account Packing. Before disbursing the bank specifically check for the following particulars in the submitted documents"

- Name of buyer
- Commodity to be exported
- Quantity
- Value (either CIF or FOB)
- Last date of shipment / negotiation.

Any other terms to be complied with

- The quantum of finance is fixed depending on the FOB value of contract /LC or the domestic values of goods, whichever is found to be lower. Normally insurance and freight charged are considered at a later stage, when the goods are ready to be shipped.
- In this case disbursals are made only in stages and if possible not in cash. The payments are made directly to the supplier by drafts/bankers/cheques.
- The bank decides the duration of packing credit depending upon the time required by the exporter for processing of goods.
- The maximum duration of packing credit period is 180 days, however bank may provide a further 90 days extension on its own discretion, without referring to RBI.

- Follow up of Packing Credit Advance

3. Exporter needs to submit stock statement giving all the necessary information about the stocks. It is then used by the banks as a guarantee for securing the packing credit in advance. Bank also decides the rate of submission of these stocks.

- Apart from this, authorized dealers (banks) also physically inspect the stock at regular intervals.
- Liquidation of Packing Credit Advance

4. Packing Credit Advance needs be liquidated out of as the export proceeds of the relevant shipment, thereby converting preshipment credit into postshipment credit.

- This liquidation can also be done by the payment receivable from the Government of India and includes the duty drawback, payment from the Market Development Fund (MDF) of the Central Government or from any other relevant source.
- In case if the export does not take place then the entire advance can also be recovered at a certain interest rate. RBI has allowed some flexibility in to this regulation under which substitution of commodity or buyer can be allowed by a bank without any reference to RBI. Hence in effect the packing credit advance may be repaid by proceeds from export of the same or another commodity to the same or another buyer. However, bank need to ensure that the substitution is commercially necessary and unavoidable.
- Overdue Packing

5. Bank considers a packing credit as an overdue, if the borrower fails to liquidate the packing credit on the due date. And, if the condition persists then the bank takes the necessary step to recover its dues as per normal recovery procedure.

- Special Cases
- Packing Credit to Sub Supplier

1. Packing Credit can only be shared on the basis of disclaimer between the Export Order Holder (EOH) and the manufacturer of the goods. This disclaimer is normally issued by the EOH in order to indicate that he is not availing any credit facility against the portion of the order transferred in the name of the manufacturer.

- This disclaimer is also signed by the bankers of EOH after which they have an option to open an inland L/C specifying the goods to be supplied to the EOH as a part of the export transaction. On basis of such an L/C, the subsupplier bank may grant a packing credit to the subsupplier to manufacture the components required for exports.
- On supply of goods, the L/C opening bank will pay to the sub supplier's bank against the inland documents received on the basis of the inland L/C opened by them.
- The final responsibility of EOH is to export the goods as per guidelines. Any delay in export order can bring EOH to penal provisions that can be issued anytime.
- The main objective of this method is to cover only the first stage of production cycles, and is not to be extended to cover supplies of raw material etc. Running account facility is not granted to subsuppliers.
- In case the EOH is a trading house, the facility is available commencing from the manufacturer to whom the order has been passed by the trading house.
- Banks however, ensure that there is no double financing and the total period of packing credit does not exceed the actual cycle of production of the commodity.
- Running Account facility

2. It is a special facility under which a bank has right to grant preshipment advance for export to the exporter of any origin. Sometimes banks also extent these facilities depending upon the good track record of the exporter.

- In return the exporter needs to produce the letter of credit / firms export order within a given period of time.
- Preshipment Credit in Foreign Currency (PCFC)

3. Authorised dealers are permitted to extend Preshipment Credit in Foreign Currency (PCFC) with an objective of making the credit available to the exporters at internationally competitive price. This is considered as an added advantage under which credit is provided in foreign currency in order to facilitate the purchase of raw material after fulfilling the basic export orders.

- The rate of interest on PCFC is linked to London Interbank Offered Rate (LIBOR). According to guidelines, the final cost of exporter must not exceed 0.75% over 6 month LIBOR, excluding the tax.
- The exporter has freedom to avail PCFC in convertible currencies like USD, Pound, Sterling, Euro, Yen etc. However, the risk associated with the cross currency truncation is that of the exporter.
- The sources of funds for the banks for extending PCFC facility include the Foreign Currency balances available with the Bank in Exchange, Earner Foreign Currency Account (EEFC), Resident Foreign Currency Accounts RFC(D) and Foreign Currency(NonResident) Accounts.
- Banks are also permitted to utilize the foreign currency balances available under Escrow account and Exporters Foreign Currency accounts. It ensures that the requirement of funds by the account holders for permissible transactions is met. But the limit prescribed for maintaining maximum balance in the account is not exceeded. In addition, Banks may arrange for borrowings from abroad. Banks may negotiate terms of credit with overseas bank for the purpose of grant of PCFC to exporters, without the prior approval of RBI, provided the rate of interest on borrowing does not exceed 0.75% over 6 month LIBOR.
- Packing Credit Facilities to Deemed Exports

4. Deemed exports made to multilateral funds aided projects and programmes, under orders secured through global tenders for which payments will be made in free foreign exchange, are eligible for concessional rate of interest facility both at pre and post supply stages.

- Packing Credit facilities for Consulting Services

5. In case of consultancy services, exports do not involve physical movement of goods out of Indian Customs Territory. In such cases, Preshipment finance can be provided by the bank to allow the exporter to mobilize resources like technical personnel and training them.

- Advance against Cheque/Drafts received as advance payment

6. Where exporters receive direct payments from abroad by means of cheques/drafts etc. the bank may grant export credit at concessional rate to the exporters of goods track record, till the time of realization of the proceeds of the cheques or draft etc. The Banks however, must satisfy themselves that the proceeds are against an export order.

PRE-SHIPMENT EXPORT CREDIT

Pre-shipment Credit in Foreign Currency (PCFC)

Definition

'Pre-shipment' means any loan or advance granted or any other credit provided by a bank to an exporter for financing the purchase, processing, manufacturing or packing of goods prior to shipment, on the basis of letter of credit opened in his favour or in favour of some other person, by an overseas buyer or a confirmed and irrevocable order for the export of goods from India or any other evidence of an order for export from India having been placed on the exporter or some other person, unless lodgement of export orders or letter of credit with the bank has been waived.

General

With a view to making credit available to exporters at internationally competitive rates, authorised dealers have been permitted to extend Pre-shipment Credit in Foreign Currency (PCFC) to exporters for domestic and imported inputs of exported goods at LIBOR/EURO LIBOR/EURIBOR related rates of interest as detailed below.

Scheme

(i) The scheme is an additional window for providing pre-shipment credit to Indian exporters at internationally competitive rates of interest. It will be applicable to only cash exports.

(ii) The exporter will have the following two options to avail of export finance:

(a) to avail of pre-shipment credit in rupees and then the postshipment credit either in rupees or discounting/ rediscounting of export bills under EBR Scheme mentioned in paragraph 2.2.

(b) to avail of pre-shipment credit in foreign currency and discount/rediscounting of the export bills in foreign currency under EBR Scheme.

(iii) Choice of currency

(a) The facility may be extended in one of the convertible currencies viz. US Dollars, Pound Sterling, Japanese Yen, Euro, etc.

(b) To enable the exporters to have operational flexibility, it will be in order for banks to extend PCFC in one convertible currency in respect of an export order invoiced in another convertible currency. For example, an exporter can avail of PCFC in US Dollar against an export order invoiced in Euro. The risk and cost of cross currency transaction will be that of the exporter.2

(iv) Banks are permitted to extend PCFC for exports to ACU countries.

(v) The applicable benefit to the exporters will accrue only after the realisation of the export bills or when the resultant export bills are rediscounted 'without recourse' basis.

Source of Funds for Banks

(i) The foreign currency balances available with the bank in Exchange Earners Foreign Currency (EEFC) Accounts, Resident Foreign Currency Accounts (RFC) and Foreign currency (Non-Resident) Accounts (Banks) Scheme could be utilised for financing the pre-shipment credit in foreign currency.

(ii) Banks are also permitted to utilise the foreign currency balances available under Escrow Accounts and Exporters Foreign Currency Accounts for the purpose, subject to ensuring that the requirements of funds by the account holders for permissible transactions are met and the limit prescribed for maintaining maximum balance in the account under broad based facility is not exceeded.

(iii) Foreign currency lines of credit

(a) In addition, banks may arrange for 'lines of credit' from abroad. Banks may negotiate lines of credit with overseas banks for the purpose of grant of PCFC to exporters without the prior approval of the RBI, provided the rate of interest on the line of credit does not exceed 1 percent over six months LIBOR/EURO LIBOR/EURIBOR. Cases where the rate of interest exceeds this ceiling should be referred to RBI, Exchange Control Department, Central Office, Mumbai giving full details of the facility such as names of foreign banks/institutions, amount of foreign currency, eligibility criteria, period of facility, spread, etc. for prior approval.

(b) As soon as the terms and conditions of the lines of credit to be availed of by the bank from overseas banks have been finalised, these may be advised to the Exchange Control Department, RBI, Central Office, Mumbai.

(c) Banks should draw on the line of credit arranged only to the extent of loans granted by them to the exporters under the PCFC. However, where the overseas bank making available the line of credit stipulates a minimum amount for drawals which should not be very large, the small unutilised portion may be managed by the bank within its foreign exchange position and Aggregate Gap Limit (AGL) limit. Similarly, any pre-payment by the exporter may also be taken within the foreign exchange position and AGL limits.3

(iv) In case, the exporters have arranged for the suppliers' credit for procuring imported inputs, the PCFC facility may be extended by the banks only for the purpose of financing domestic inputs for exports.

Period of Credit

(i) The PCFC will be available as in the case of rupee credit initially for a maximum period of 180 days; any extension of the credit will be subject to the same terms and conditions as applicable for extension of rupee packing credit and it will also have additional interest cost of 2 percent above the rate for the initial period of 180 days prevailing at the time of extension.

(ii) Further extension will be subject to the terms and conditions fixed by the bank concerned and if no export takes place within 360 days, the PCFC will be adjusted at T.T. selling rate for the currency concerned. In such cases, banks can arrange to remit foreign exchange to repay the loan or line of credit raised abroad and interest without prior permission of RBI.4

Disbursement of PCFC

(i) In case, full amount of PCFC or part thereof is utilised to finance domestic input, banks may apply appropriate spot rate for the transaction.

(ii) As regards the minimum lots of transactions, it is left to the operational convenience of banks to stipulate the minimum lots taking into account the availability of their own resources. However, while fixing the minimum lot, banks may take into account the needs of their small customers also.

(iii) Banks should take steps to streamline their procedures so that no separate sanction is needed for PCFC once the packing credit limit has been authorised and the disbursement is not delayed at the branches.

Liquidation of PCFC Account

(i) General

(a) The facility of PCFC will be self-liquidating in nature. Accordingly, the PCFC should be liquidated out of proceeds of export documents on their submission for discounting/rediscounting under the EBR Scheme.

(b) The export bills will have to be discounted or covered by grant of foreign currency loans (DP bills) to liquidate the outstanding PCFC. The question of sending export bills for collection does not arise.

(c) The PCFC should not be liquidated with foreign exchange acquired from other sources.

(d) PCFC cannot be treated as a loan to be repaid in order to avail of post-shipment credit separately.

(ii) Packing credit in excess of F.O.B. value In certain cases, (viz. agro based products like HPS Groundnut, defatted & deoiled cakes, tobacco, pepper, cardamom, cashew nuts, etc.) where packing credit required is in excess of FOB value, PCFC would be available only for exportable portion of the produce.

(iii) Substitution of order/commodity Repayment/liquidation of PCFC could be with export documents relating to any other order covering the same or any other commodity exported by the exporter. While allowing substitution of contract in this way, banks should ensure that it is commercially necessary and unavoidable.

Cancellation/Non-execution of Export Order

(i) In case of cancellation of the export order for which the PCFC was availed of by the exporter from the bank, or if the exporter is unable to execute the export order for any reason, it will be in order for the exporter to repay the loan together with accrued interest thereon, by purchasing foreign exchange (principal + interest) from domestic market through the bank. In such cases, interest will be payable on the rupee equivalent of principal amount at the rate applicable to 'Export Credit Not Otherwise Specified' (ECNOS) at pre-shipment stage plus a penal rate of interest to be decided by the bank from the date of advance after adjustment of interest of PCFC already recovered. Banks are free to decide the rate of interest for ECNOS at pre-shipment stage, subject to PLR and spread guidelines.

(ii) It will also be in order for the banks to remit the amount to the overseas bank, provided the PCFC was made available to exporter from the line of credit obtained from that bank.

(iii) Banks may extend PCFC to such exporters subsequently, after ensuring that the earlier cancellation of PCFC was due to genuine reasons.

Running Account Facility for All Commodities

(i) Banks are permitted to extend the 'Running Account' facility under the PCFC Scheme to exporters for all commodities, on the lines of the facility available under rupee credit, subject to the following conditions:

(a) The facility may be extended provided the need for 'Running Account' facility has been established by the exporters to the satisfaction of the bank.

(b) Banks may extend the facility only to those exporters whose track record has been good.

(c) In all cases, where Pre-shipment Credit 'Running Account' facility has been extended, the L/Cs or firm orders should be produced within a reasonable period of time.

(d) The drawals made under Rupee 'Running Account' facility should not be converted into PCFC advances.6

(e) The PCFC will be marked-off on the 'First-in-First-out' basis.

(f) PCFC can also be marked-off with proceeds of export documents against which no PCFC has been drawn by the exporter.

(ii) Banks should closely monitor the production of firm order or L/C subsequently by exporters and also the end-use of funds. It has to be ensured that no diversion of funds is made for domestic use. In case of non-utilisation of PCFC drawals for export purposes, the penal provisions stated above should be made applicable and the 'Running Account' facility should be withdrawn for the concerned exporter.

(iii) Banks are required to take any prepayment by the exporter under PCFC scheme within their foreign exchange position and Aggregate Gap Limit (AGL) as indicated.

(c) above With the extension of 'Running Account' facility, mismatches are likely to occur for a longer period involving cost to the banks. Banks may charge the exporters the funding cost, if any, involved in absorbing mismatches in respect of the prepayment beyond one month period.

Forward Contracts

(i) In terms of paragraph 1.1.3 (iii) above, PCFC can be extended in any of the convertible currencies in respect of an export order invoiced in another convertible currency. Banks are also permitted to allow an exporter to book forward contract on the basis of confirmed export order prior to availing of PCFC and cancel the contract (for portion of drawal used for imported inputs) at prevailing market rates on availing of PCFC.

(ii) Banks are permitted to allow customers to seek cover in any permitted currency of their choice which is actively traded in the market, subject to ensuring that the customer is exposed to exchange risk in a permitted currency in the underlying transaction.

(iii) While allowing forward contracts under the scheme, banks may ensure compliance of the basic Exchange Control requirement that the customer is exposed to an exchange risk in the underlying transaction at different stages of the export finance.

Sharing of EPC under PCFC

(i) The rupee export packing credit is allowed to be shared between an export order holder and the manufacturer of the goods to be exported.7

(ii) Similarly, banks may extend PCFC also to the manufacturer on the basis of the disclaimer from the export order holder through his bank. PCFC granted to the manufacturer can be repaid by transfer of foreign currency from the export order holder by availing of PCFC or by discounting of bills. Banks should ensure that no double financing is involved in the transaction and the total period of packing credit is limited to the actual cycle of production of the exported goods.

(iii) The facility may be extended where the banker or the leader of consortium of banks is the same for both the export order holder and the manufacturer or, the banks concerned agree to such an arrangement where the bankers are different for export order holder and manufacturer. The sharing of export benefits will be left to the mutual agreement between the export order holder and the manufacturer.

Refinance

Banks will not be eligible for any refinance from RBI against export credit under the PCFC scheme and, as such, the quantum of PCFC should be shown separately from the export credit figures reported for the purpose of drawing export credit refinance.

Other Aspects

(i) The applicable benefits such as credit of eligible percent of export proceeds to EEFC Account etc. to the exporters will accrue only after realisation of the export bills and not at the stage of conversion of pre-shipment credit to post-shipment credit (except when bills are discounted/ rediscounted 'without recourse'). Surplus of export proceeds available after adjusting relative export finance and credit to EEFC account should not be allowed for setting-off of import bills.

(ii) ECGC cover will be available in rupees only, whereas, PCFC is in foreign currency.

(iii) For the purpose of reckoning banks' performance in extending export credit, the rupee equivalent of the PCFC may be taken into account.

Post-Shipment Export Credit - Definition

'Post-shipment Credit' means any loan or advance granted or any other credit provided by an institution to an exporter of goods from India from the date of extending credit after shipment of goods to the date of realization of export proceeds.

Rediscounting of Export Bills Abroad Scheme (EBR)

General

Banks are also allowed to rediscount export bills abroad at rates linked to international interest rates at post-shipment stage.

Exporters' Choice

The exporters have the option to avail of pre-shipment credit and postshipment credit either in rupee or in foreign currency. However, if the pre-shipment credit has been availed in foreign currency, the postshipment credit has necessarily to be under the EBR scheme since foreign currency pre-shipment credit has to be liquidated in foreign currency.

Scheme

(i) It will be comparatively easier to have a facility against bills portfolio (covering all eligible bills) than to have rediscounting facility abroad on bill by bill basis. There will, however, be no bar if rediscounting facility on bill to bill basis is arranged by an bank in case of any particular exporter, especially for large value transactions.

(ii) Banks may arrange a "Bankers Acceptance Facility" (BAF) for rediscounting the export bills without any margin and duly covered by collateralised documents.

(iii) Each bank can have its own BAF limit(s) fixed with an overseas bank or a rediscounting agency or an arrangement with any other agency such as factoring agency (in case of factoring arrangement, it should be on "without recourse" basis only).

(iv) The exporters, on their own, can arrange for themselves a line of credit with an overseas bank or any other agency (including a factoring agency) for discounting their export bills direct subject to the following conditions:

(a) Direct discounting of export bills by exporters with overseas bank and/or any other agency will be done only through the branch of a bank designated by him for this purpose.
(b) Discounting of export bills will be routed through designated bank from whom the packing credit facility has been availed of. In case, these are routed through any other bank, the latter will first arrange to adjust the amount outstanding under packing credit with the concerned bank out of the proceeds of the rediscounted bills.
(v) As soon as terms and conditions of BAF/lines of credit or similar facility with overseas bank/discounting agency or any other agency have been finalised, these may be advised by the bank or by the designated branch in the case of lines of credit negotiated directly by the exporter to the ECD, RBI, Central Office, Mumbai10 together with a copy of the agreement entered into by the bank/exporter with overseas bank/discounting agency/any other agency, as the case may be.
(vi) The limits granted to banks by overseas banks/discounting agencies under BAF will not be reckoned for the purpose of borrowing limits fixed by RBI (ECD) for them.

Eligibility Criteria
(i) The Scheme will cover mainly export bills with usance period upto 180 days from the date of shipment (inclusive of normal transit period and grace period, if any). There is, however, no bar to include demand bills if overseas institution has no objection to it.
(ii) For rediscounting export bills having payment terms beyond 180 days from date of shipment, proposals will have to be submitted to the RBI (ECD), Mumbai, furnishing all relevant details, for prior approval.
(iii) The facility under the Scheme of Rediscounting may be offered in any convertible currency.
(iv) Banks are permitted to extend the EBR facility for exports to ACU countries.
(v) For operational convenience, the BAF Scheme may be centralised at a branch designated by the bank. There will, however, be no bar for other branches of the bank to operate the scheme as per their internal guidelines/instructions.

Source of On-shore Funds

(i) There will be no bar on banks to utilise the foreign exchange resources available with them in Exchange Earners Foreign Currency Accounts (EEFC), Resident Foreign Currency Accounts (RFC), Foreign Currency (Non-Resident) Accounts (Banks) Scheme, to discount usance bills and retain them in their portfolio without resorting to rediscounting. In the case of demand bills, these may have to be routed through the existing post-shipment credit facility or by way of foreign exchange loans to the exporters out of the foreign currency balances available with banks in the Schemes ibid.
(ii) To facilitate the growth of local market for rediscounting export bills, establishment and development of an active inter-bank market is desirable. It is possible that banks hold bills in their own portfolio without rediscounting. However, in case of need, the banks should also have access to the local market, which will enable the country to save foreign exchange to the extent of the cost of rediscounting. Further, as different banks may be having BAF for varying amounts, it will be possible for a bank11 which has balance available in its limit to offer rediscounting facility to another bank which may have exhausted its limit or could not arrange for such a facility.
(iii) Banks may avail of lines of credit from other banks in India if they are not in a position to raise loans from abroad on their own or they do not have branches abroad, subject to the condition that ultimate cost to the exporter should not exceed 1percent above LIBOR/EURO LIBOR/EURIBOR excluding withholding tax. The spread between the borrowing and lending bank is left to the discretion of the banks concerned.

Accounting Aspects

(i) The Rupee equivalent of the discounted value of the export bills will be payable to the exporter and the same should be utilized to liquidate the outstanding export packing credit.
(ii) As the discounting of bills/extension of foreign exchange loans (DP bills) will be in actual foreign exchange, banks may apply appropriate spot rate for the transactions.
(iii) The Rupee equivalents of discounted amounts/foreign exchange loan may be held in the bank’s books distinct from the existing post-shipment credit accounts.

(iv) In case of overdue bills banks may charge 2 percent above the rate of rediscounting of foreign exchange loan from the due date to the date of crystallization.

(v) Interest rate as per RBI interest rate directive for post-shipment credit in Rupees will be applicable from the date of crystallization.

(vi) In the event of export bill not being paid, it will be in order for the bank to remit the amount equivalent to the value of the bill earlier discounted, to the overseas bank/agency which had discounted the bill, without the prior approval of the RBI.

Restoration of Limits and Availability of Export Benefits such as

EEFC Account

As stated in paragraph 2.2.6 above, "Without Recourse" facility may not generally be available. Thus, the restoration of exporter's limits and the availability of export benefits, such as credit to EEFC accounts, in case of "with recourse" facility, will be effected only on realisation of export proceeds and not on the date of discounting/ rediscounting of the bills, However, if the bills are rediscounted12 "without recourse", the restoration of exporter's limits and availability of export benefits may be given effect immediately on rediscounting.

ECGC Cover

In the case of export bills rediscounted 'with recourse', there will not be any change in the existing system of coverage provided by Export Credit Guarantee Corporation (ECGC) as the liability of the exporter continues till the relative bill is retired/paid. In other cases, where the bills are rediscounted 'without recourse', the liability of ECGC ceases as soon as the relative bills are rediscounted.

Refinance

Banks will not be eligible for refinance from the RBI against export bills discounted/rediscounted under the Scheme and as such, the bills discounted/rediscounted in foreign currency should be shown separately from the export credit figures reported for purposes of drawing export credit refinance.

Export Credit Performance

(i) Only the bills rediscounted abroad 'with recourse' basis and outstanding will be taken into account for the purpose of export credit performance. The bills rediscounted abroad 'without recourse' will not count for the export credit performance.

(ii) Bills rediscounted 'with recourse' in the domestic market could get reflected only in the case of the first bank discounting the bills as that bank alone will have recourse to the exporter and the bank rediscounting will not reckon the amount as export credit.

Letter of credit

After a contract is concluded between a buyer and a seller, the buyer's bank supplies a letter of credit to the seller.

Seller consigns the goods to a carrier in exchange for a bill of lading.

Seller provides the bill of lading to bank in exchange for payment. Seller's bank then provides the bill to buyer's bank, who provides the bill to buyer.

Buyer provides the bill of lading to carrier and takes delivery of the goods.

A letter of credit is a document from a bank guaranteeing that a seller will receive payment in full as long as certain delivery conditions have been met.

In the event that the buyer is unable to make payment on the purchase, the bank will cover the outstanding amount. They are often used in international transactions to ensure that payment will be received where the buyer and seller may not know each other and are operating in different countries. In this case the seller is exposed to a number of risks such credit risk, and legal risk caused by the distance, differing laws and difficulty in knowing each party personally. A letter of credit provides the seller with a guarantee that they will get paid as long as certain delivery conditions have been met. For this reason the use of letters of credit has become a very important aspect of international trade.

The bank that writes the letter of credit will act on behalf of the buyer and make sure that all delivery conditions have been met before making the payment to the seller. Most letters of credit are governed by rules promulgated by the International Chamber of Commerce known as Uniform Customs and Practice for Documentary Credits. Letters of credit are typically used by importing and exporting companies particularly for large purchases and will often negate the need by the buyer to pay a deposit before delivery is made.

They are also used in land development to ensure that approved public facilities (streets, sidewalks, storm water ponds, etc.) will be built. The parties to a letter of credit are the supplier, usually called the "beneficiary", "the issuing bank", of whom the buyer is a client, and sometimes an advising bank, of whom the beneficiary is a client. Almost all letters of credit are irrevocable, i.e., cannot be amended or canceled without mutual consent of all parties.

Terminology

Origin

The name "letter of credit" derives from the French word "accréditation", a power to do something, which derives from the Latin "accreditivus", meaning trust.[citation needed]

Related terms

A sight LC causes payment to be made immediately to the beneficiary/seller/exporter upon presentation of the correct documents. A time or date LC specifies when payment is to be made at a future date and upon presentation of the required documents.

Negotiation means the giving of value for draft(s) or document(s) by the bank authorized to negotiate, with the nominated bank. Mere examination of the documents and forwarding the same to the LC issuing bank for reimbursement, without giving of value / agreed to give, does not constitute a negotiation.

- Advising Bank — advises the beneficiary at the request of the issuing bank.
- Applicant — the party on whose request the issuing bank issues a credit .
- Banking day—The day on which a bank is regularly open at the place at which an act to be performed.

- Beneficiary — the party who is to receive the benefit (payment) of the LC. The consignee of an LC and the beneficiary may not be the same. The credit is issued in the beneficiary's favor.
- Presentation — either delivery of documents against an LC or the document itself.
- Complying presentation — when the presentation of documents is in accordance with:
  (1) The terms and conditions of the credit
  (2) The applicable provisions of UCP
  (3) International standard banking practice
- Confirmation — a definite undertaking from the confirming bank to honor or negotiate a complying presentation in addition to that of the issuing bank.
- Confirming bank — adds confirmation to an LC. It does so at the request of the issuing bank and taking authorization from the issuing bank.
- Letter of credit/credit — an irrevocable commitment of the issuing bank to honor a complying presentation.
- Honour — to act according to commitment of the LC. Presentations are honored in different ways depending on the type of credit:
  (1) Making payment at sight for sight LC.
  (2) Incurring a deferred payment undertaking and paying at maturity for deferred payment LC.
  (3) Accepting a draft drawn by the beneficiary and paying at maturity for deferred acceptance LC.
- Issuing bank — issues the LC.
- Nominated Bank — the bank with which credit is available. If no bank is mentioned in the credit as nominated bank, all banks are "nominated".
- Negotiation — A nominated bank is said to negotiate a document if it purchases a draft or documents under a complying presentation either by making an advance or agreeing to advance funds to the

beneficiary on or before the date on which reimbursement is due to the nominated bank. A draft drawn on a nominated bank cannot be purchased separately.

Documents that can be presented for payment

To receive payment, an exporter or shipper must present the documents required by the LC. Typically, the payee presents a document proving the goods were sent instead of showing the actual goods. The original bill of lading (BOL) is normally the document accepted by banks as proof that goods have been shipped. However, the list and form of documents is open to negotiation and might contain requirements to present documents issued by a neutral third party evidencing the quality of the goods shipped, or their place of origin or place. Typical types of documents in such contracts include:

- Financial Documents — Bill of Exchange, co-accepted draft
- Commercial Documents — Invoice, packing list
- Shipping Documents — Transport document, insurance certificate, commercial, official or legal documents
- Official Documents — License, embassy legalization, origin certificate, inspection certificate, phytosanitary certificate
- Transport Documents — Bill of lading (ocean or multi-modal or charter party), airway bill, lorry/truck receipt, railway receipt, CMC other than mate receipt, forwarder cargo receipt
- Insurance documents — Insurance policy or certificate, but not a cover note.

Legal principles governing documentary credits

One of the primary peculiarities of the documentary credit is that the payment obligation is independent from the underlying contract of sale or any other contract in the transaction. Thus the bank's obligation is defined by the terms of the LC alone, and the sale contract is irrelevant. The defenses available to the buyer arising out of the sale contract do not concern the bank and in no way affect its liability. Article 4(a) of the UCP states this principle clearly. Article 5 of the UCP further states that banks deal with documents only, they are not concerned with the goods (facts). Accordingly, if the documents tendered by the beneficiary, or his or her agent, are in order, then in general the bank is obliged to pay without further qualifications.

The policies behind adopting the abstraction principle are purely commercial and reflect a party's expectations: first, if the responsibility for the validity of documents was thrown onto banks, they would be burdened with investigating the underlying facts of each transaction, and less inclined to issue documentary credits because of the risk and inconvenience. Second, documents required under the LC could in certain circumstances be different from those required under the sale transaction. This would place banks in a dilemma in deciding which terms to follow if required to look behind the credit agreement. Third, the fact that the basic function of the credit is to provide a seller with the certainty of payment for documentary duties suggests that banks should honor their obligation notwithstanding allegations of buyer misfeasance. Courts have emphasized that buyers always have a remedy for an action upon the contract of sale and that it would be a calamity for the business world if a bank had to investigate every breach of contract.

The "principle of strict compliance" also aims to make the bank's duty of effecting payment against documents easy, efficient and quick. Hence, if the documents tendered under the credit deviate from the language of the credit the bank is entitled to withhold payment, even if the deviation is purely terminological. The general legal maxim de minimis non curat lex has no place in the field.

Types

- Import/export — The same credit can be termed an import or export LC depending on whose perspective is considered. For the importer it is termed an Import LC and for the exporter of goods, an Export LC.
- Revocable — the buyer and the bank that established the LC are able to manipulate the LC or make corrections without informing or getting permissions from the seller. According to UCP 600, all LCs are irrevocable, hence this type of LC is obsolete.
- Irrevocable — any changes (amendment) or cancellation of the LC (except it is expired) is done by the applicant through the issuing bank. It must be authenticated and approved by the beneficiary.

- Confirmed — An LC is said to be confirmed when a second bank adds its confirmation (or guarantee) to honor a complying presentation at the request or authorization of the issuing bank.
- Unconfirmed — this type does not acquire the other bank's confirmation.
- Transferrable — the exporter has the right to make the credit available to one or more subsequent beneficiaries. Credits are made transferable when the original beneficiary is a middleman and does not supply the merchandise, but procures goods from suppliers and arranges them to be sent to the buyer and does not want the buyer and supplier knows each other.
- The middleman is entitled to substitute his own invoice for the supplier's and acquire the difference as profit.
- A letter of credit can be transferred to the second beneficiary at the request of the first beneficiary only if it expressly states that the letter of credit is "transferable". A bank is not obligated to transfer a credit.
- A transferable letter of credit can be transferred to more than one alternate beneficiary as long as it allows partial shipments.
- The terms and conditions of the original credit must be replicated exactly in the transferred credit. However, to keep the workability of the transferable letter of credit, some figures can be reduced or curtailed.

Amount

- Unit price of the merchandise (if stated)
- Expiry date
- Presentation period
- Latest shipment date or given period for shipment.
- The first beneficiary may demand from the transferring bank to substitute for the applicant. However, if a document other than the invoice must be issued in a way to show the applicant's name, in such a case that requirement must indicate that in the transferred credit it will be free.

- Transferred credit cannot be transferred again to a third beneficiary at the request of the second beneficiary.
- Untransferable — A credit that the seller cannot assign all or part of to another party. In international commerce, all credits are untransferable.
- Deferred / Usance — A credit that is not paid/assigned immediately after presentation, but after an indicated period that is accepted by both buyer and seller. Typically, seller allows buyer to pay the required money after taking the related goods and selling them.
- At Sight — A credit that the announcer bank immediately pays after inspecting the carriage documents from the seller.
- Red Clause — Before sending the products, seller can take the pre-paid part of the money from the bank. The first part of the credit is to attract the attention of the accepting bank. The first time the credit is established by the assigner bank, is to gain the attention of the offered bank. The terms and conditions were typically written in red ink, thus the name.
- Back to Back — A pair of LCs in which one is to the benefit of a seller who is not able to provide the corresponding goods for unspecified reasons. In that event, a second credit is opened for another seller to provide the desired goods. Back-to-back is issued to facilitate intermediary trade. Intermediate companies such as trading houses are sometimes required to open LCs for a supplier and receive Export LCs from buyer.

Pricing

Issuance charges, covering negotiation, reimbursements and other charges are paid by the applicant or as per the terms and conditions of the LC. If the LC does not specify charges, they are paid by the Applicant.

Legal basis

Legal writers have failed to satisfactorily reconcile the bank's undertaking with any contractual analysis. The theories include: the implied promise, assignment theory, the novation theory, reliance theory, agency theories, estoppels and trust theories, anticipatory theory and the guarantee theory.

Although documentary credits are enforceable once communicated to the beneficiary, it is difficult to show any consideration given by the beneficiary to the banker prior to the tender of documents. In such transactions the undertaking by the beneficiary to deliver the goods to the applicant is not sufficient consideration for the bank's promise because the contract of sale is made before the issuance of the credit, thus consideration in these circumstances is past.

International Trade Payment methods

International Trade Payment method can be done in the following ways.

- Advance payment (most secure for seller) — The buyer parts with money first and waits for the seller to forward the goods.
- Documentary Credit (more secure for seller as well as buyer) — Subject to ICC's UCP 600, the bank gives an undertaking (on behalf of buyer and at the request of applicant) to pay the beneficiary the value of the goods shipped if acceptable documents are submitted and if the stipulated terms and conditions are strictly complied with. The buyer can be confident that the goods he is expecting only will be received since it will be evidenced in the form of certain documents called for meeting the specified terms and conditions while the supplier can be confident that if he meets the stipulations his payment for the shipment is guaranteed by bank, who is independent of the parties to the contract.
- Documentary collection (more secure for buyer and to a certain extent to seller) — Also called "Cash against Documents". Subject to ICC's URC 525, sight and usance, for delivery of shipping documents against payment or acceptances of draft, where shipment happens first, then the title documents are sent to the buyer's bank by seller's bank, for delivering documents against collection of payment/acceptance

- Direct payment (most secure for buyer) — The supplier ships the goods and waits for the buyer to remit the bill, on open account terms.

Risk situations

Fraud Risks

- The payment will be obtained for nonexistent or worthless merchandise against presentation by the beneficiary of forged or falsified documents.
- Credit itself may be funded.
- Sovereign and Regulatory Risks
- Performance of the Documentary Credit may be prevented by government action outside the control of the parties.

Legal Risks

Possibility that performance of a documentary credit may be disturbed by legal action relating directly to the parties and their rights and obligations under the documentary credit.

Force Majeure and Frustration of Contract

Performance of a contract – including an obligation under a documentary credit relationship – is prevented by external factors such as natural disasters or armed conflicts.

Applicant

- Non-delivery of Goods
- Short shipment
- Inferior quality
- Early / late shipment
- Damaged in transit
- Foreign exchange
- Failure of bank viz issuing bank / collecting bank

Issuing Bank

- Insolvency of the applicant
- Fraud risk, sovereign and regulatory risk and legal risks

Reimbursing Bank

- No obligation to reimburse the claiming bank unless it has issued a reimbursement undertaking.

Beneficiary

- Failure to comply with credit conditions
- Failure of, or delays in payment from, the issuing bank

Export-Import Bank of India – Role, Functions and Facilities

Export-Import Bank of India (Exim Bank) was set up by an Act of the Parliament "THE EXPORT-IMPORT BANK OF INDIA ACT, 1981" for providing financial assistance to exporters and importers, and for functioning as the principal financial institution for co-ordinating the working of institutions engaged in financing export and import of goods and services with a view to promoting the country's international trade and for matters connected therewith or incidental thereto.

EXIM Bank has two broad business streams: one, the traditional export finance typical of export credit agencies around the world and two, financing of export oriented units (export capability creation), which are non-traditional for export credit agencies. Since inception, Exim Bank has been the principal financial institution in the country for financing project exports and exports on deferred credit terms. As per Memorandum PEM (MEMORANDUM OF INSTRUCTIONS ON PROJECT EXPORTS AND SERVICE EXPORTS) of Reserve Bank of India, the following constitute project exports:

i. Supply of goods / equipment on deferred payment terms

ii. Civil construction contracts
iii. Industrial turnkey projects
iv. Consultancy / services contracts

Exim Bank extends funded and non-funded facilities for overseas turnkey projects, civil construction contracts, technical and consultancy service contracts as well as supplies.

- Turnkey Projects are those which involve supply of equipment along with related services, like design, detailed engineering, civil construction, erection and commissioning of plants and power transmission & distribution
- Construction Projects involve civil works, steel structural works, as well as associated supply of construction material and equipment for various infrastructure projects.
- Technical and Consultancy Service contracts, involving provision of know-how, skills, personnel and training are categorised as consultancy projects. Typical examples of services contracts are: project implementation services, management contracts, and supervision of erection of plants, CAD / CAM solutions in software exports, finance and accounting systems.
- Supplies: Supply contracts involve primarily export of capital goods and industrial manufactures. Typical examples of supply contracts are: supply of stainless steel slabs and ferro-chrome manufacturing equipments, diesel generators, pumps and compressors.

EXIM Bank, under powers delegated vide the PEM, provides post-award clearance for project export contracts valued up to USD 100 million. Project export contracts valued above USD 100 million need to be provided post-award clearance by the inter-institutional Working Group. The Working Group is a single-window clearance mechanism, comprising Exim Bank as the convener and nodal agency, RBI – Foreign Exchange Department and Export Credit Guarantee Corporation of India Ltd. [ECGC]. In the case of very large value projects, officials of Ministry of Finance, Ministry of Commerce and Industry and Ministry of External Affairs, Government of India, are invited to participate in the Working Group Meetings. In order to obtain immediate clarifications for speedy clearance of proposals by the Working Group, the exporters concerned and their bankers are also associated with the meetings. With the same objective, participation of the main sub-suppliers, sub-contractors or other associates and their bankers in such meetings is also encouraged, particularly in respect of proposals for high value contracts. Exim Bank also plays the role of a financier and provides funded and non-funded support for project export contracts of Indian Entities.

In addition to project exports, Exim Bank also extends fund-based and non-fund-based facilities to deemed export contracts as defined in Foreign Trade Policy of GOI, e.g.,

- secured under funding from Multilateral Funding Agencies like the World Bank, Asian Development Bank, etc.;
- contracts secured under International Competitive Bidding;
- contracts under which payments are received in foreign currency.

EXIM Bank offers the following Export Credit facilities, which can be availed of by Indian companies, commercial banks and overseas entities.

For Indian Companies executing contracts overseas

- **Pre-shipment credit**

EXIM Bank's Pre-shipment Credit facility, in Indian Rupees and foreign currency, provides access to finance at the manufacturing stage - enabling exporters to purchase raw materials and other inputs.

Pre-shipment credits are usually extended by exporters' commercial banks for period upto 180 days. Exim Bank extends pre-shipment / post-shipment credit either directly or in participation with commercial banks. In order to offer one-stop banking products to export clients, the Bank has also been offering short-term pre / post shipment credit either directly or through exporter's bankers. Exim Bank may consider extending pre-shipment credit and post-shipment credit for periods exceeding 180 days, on case-to-case basis and subject to the merits of the case.

- **Supplier's Credit**

This facility enables Indian exporters to extend term credit to importers (overseas) of eligible goods at the post-shipment stage.

Post-shipment Supplier's Credit can be extended to Indian exporters upto the extent of the deferred credit portion of the export contract, either in Rupees or in Foreign currency. The period of deferred credit and moratorium will generally depend on the nature of goods [List A and List B of Memorandum PEM] or nature of projects, as per guidelines contained in the Memorandum PEM of RBI.

For Project Exporters

- **Export Project Cash-Flow Deficit Financing Programme [EPCDF]**

Indian project exporters (including those under Deemed Exports category) incur expenditure in rupee or foreign currency while executing contracts i.e. costs of mobilisation/acquisition of materials, personnel and equipment etc. Exim Bank's facility helps them meet these expenses for -

a) Project Export Contracts;
b) contracts in India categorized as Deemed Exports in the Foreign Trade Policy of India.

- **Capital Equipment Finance Programme (CEFP)**

Capital Equipment Finance Programme [CEFP] has been conceived to cater to capital expenditure for procurement of capital equipment to be utilized across multiple contracts. CEFP provides direct access to Exim Bank's finance for eligible Indian companies for procurement of indigenous and imported capital equipment for executing overseas projects / deemed export projects.

For Exporters of Consultancy and Technological Services

EXIM Bank offers a special credit facility to Indian exporters of consultancy and technology services, so that they can, in turn, extend term credit to overseas importers.

Guarantee Facilities

Indian companies can avail of guarantee facilities of different types to furnish requisite guarantees to facilitate execution of export contracts (including deemed export contracts) and import transactions.

- **Advance Payment Guarantee (APG)**: Issued to project exporters to secure a project mobilization advance as a percentage (10-20%) of the contract value, which is generally recovered on a pro-rata basis from the progress payment during project execution.
- **Performance Guarantee (PG)**: PG for up to 5-10% of contract value is issued valid until completion of maintenance period and/or grant of Final Acceptance Certificate (FAC) by the overseas employer/client.
- **Retention Money Guarantee (RMG)**: This enables the exporter to obtain the release of retained payments from the client prior to issuance of Project Acceptance Certificate (PAC)/ Final Acceptance Certificate (FAC).
- **Other Guarantees**: e.g. in lieu of customs duty or security deposit for expatriate

labour, equipment etc.

- **Eligibility**: Indian project exporters securing overseas or deemed export contracts.

For Overseas Entities

- **Buyer's Credit**

Overseas buyers can avail of Buyer's Credit from Exim Bank, for import of eligible goods from India on deferred payment terms. As per Memorandum PEM guidelines, RBI has authorised Exim Bank to extend overseas buyer's credits upto USD 20 mn for project exports without seeking approval of RBI.

The facility enables exporters/contractors to expand abroad and into non-traditional markets. It also enables exporters/contractors to be competitive when bidding or negotiating for overseas jobs.

Benefits to Foreign Customers

- Enables overseas buyers to obtain medium-and long-term financing
- Competitive interest rate against host country's high cost of borrowing.
- **Eligibility:**

Buyer's Credit is extended to a foreign project company that intends to award the project execution to an Indian project exporter. The financing will be available to all kinds of projects and service exports from India. Facility is available for development, upgrading or expansion of infrastructure facilities; financing of public or private projects such as plants and buildings; professional services such as surveyors, architecture, consultations, etc.

- **Buyer's Credit under NEIA**

Buyer's Credit – NEIA is a unique financing mechanism that provides a safe mode of non-recourse financing option to Indian exporters and serves as an effective market entry tool to traditional as well as new markets in developing countries, which need deferred credit on medium or long-term basis.

Under this facility, Exim Bank facilitates project exports from India by way of extending credit to overseas sovereign governments and government owned entities for import of Indian goods and services from India on deferred credit terms. Exim Bank will obtain credit insurance cover under NEIA through ECGC. NEIA is a trust set up by the Ministry of Commerce and administered by Export Credit & Guarantee Corporation of India (ECGC).Facility is available for project exports requiring medium or long term deferred credit.

- **Eligibility:**

Exim Bank extends the credit directly to overseas buyer of projects from India without recourse to Indian exporter. Borrower should be overseas sovereign governments or government owned entities. Amount of Loan should generally not be more than 85% of the contract value. Sovereign guarantee is needed where the borrower is other than the foreign government. Any other security may be stipulated on a case-to-case basis.

Project Finance menu of funded and non-funded facilities to Indian exporters

The Project Finance menu of funded and non-funded facilities to Indian exporters, commercial banks in India and overseas entities is given below:

For Indian Exporters	For Commercial Banks in India

❖ Post-shipment Supplier's Credit ❖ Export Project Cash flow Deficit Financing Program ❖ Pre-shipment Credit in Rupee and Foreign Currency ❖ Finance for Export of Consultancy and Technology Services ❖ Finance for Deemed Export contracts ❖ Capital Equipment Finance ❖ Financing Deemed Export contracts secured via structures including but not restricted to BOT / BOO / BOOT / BOLT ❖ Letters of Credit / Guarantees	❖ Risk participation in funded / non-funded facilities extended to Indian exporters. ❖ Refinance of Export Credit
	For Overseas Entities
	❖ Buyer's Credit ❖ Buyer's Credit under NEIA

RBI's Memorandum PEM has to be referred for Project and Service Exports.

Export Capability Creation loans extended by the Bank may be classified into three broad categories viz. finance for overseas investment, finance for export oriented units and finance for financial intermediaries. Besides loans, the Bank also extends non-fund based assistance by way of guarantees and Letters of Credit (L/Cs). The three categories are discussed as under:

1. Overseas Investment	✓ Term Financing – to overseas Joint Ventures/ Wholly Owned Subsidiaries as well as to Indian companies towards part financing their equity investment in overseas JV/ WOS. ✓ Equity Investment – Participation in equity of overseas

	ventures of Indian companies. ✓ Working Capital Loans to JVs/WOSs ✓ Guarantees to JVs/WOSs
2. Export- Oriented Units	✓ Asset Creation o Equipment Finance o Project Finance ✓ Working Capital o Medium Term (LTWC, WCTL) o Short Term Finance ✓ Special Products o Export Marketing Finance o Export Product Development Finance o Export Vendor Development Finance o Research & Development (R&D) Finance o Finance for Indian Educational Institutions and setting up institutions abroad o Finance for Software Technology Parks o Finance for Development of Minor Ports / Jetties o Creative Industry Financing o Project-related non-fund based guarantees o Guarantees and stand-by LCs (SBLCs) o Letters of Credit (LCs)
3. Financial	✓ Refinance to Commercial Banks

Intermediaries (banks)	✓ Export Bills Rediscounting for commercial banks.

The primary objective of providing Export Capability Creation loans is to facilitate export production and international competitiveness of borrower companies. Exim Bank provides a comprehensive range of products and services covering financial needs of the borrower companies at all stages of their business cycle. The Bank's vision is to develop commercially viable relationships with a target set of externally oriented companies by offering them a comprehensive range of products and services aimed at enhancing their internationalisation efforts.

Overseas Investment Finance Programme

EXIM Bank encourages Indian companies to invest abroad for, inter alia, setting up manufacturing units and for acquiring overseas companies to get access to the foreign market, technology, raw materal, brand, IPR etc. For financing such overseas investments, Exim Bank provides:

a) Term loans to Indian companies upto 80% of their equity investment in overseas JV/ WOS.

b) Term loans to Indian companies towards upto 80% of loan extended by them to the overseas JV/ WOS.

c) Term loans to overseas JV/ WOS towards part financing

- Capital expenditure towards acquisition of assets,
- Working capital,
- Equity investment in another company,
- Acquisition of brands/ patents/ rights/ other IPR,
- Acquisition of another company,
- Any other activity that would otherwise be eligible for finance from Exim Bank had it been an Indian entity.

d) Guarantee facility to the overseas JV/ WOS for raising term loan/ working capital.

Eligibility to avail finance or services:

EXIM Bank's funded/ non-funded assistance is generally with recourse to the Indian promoter Company. Exim Bank financing is available in Indian Rupees (to the Indian borrower) and in foreign currency [as per extant RBI guidelines]. The tenor range is usually 5-7 years with a suitable moratorium, and repayments in suitable monthly/ quarterly installments. Promoter margin is minimum 20% and security will include inter alia appropriate charge on the assets of the overseas entity, Corporate Guarantee of the Indian promoter backed by appropriate charge on its assets, Political and/ or commercial risk cover, Pledge of shares held by the Indian promoter in the overseas venture etc.

Export- Oriented Units, Corporate Banking

The Bank offers a number of financing programmes for Export Oriented Units (EOUs), importers and for companies making overseas investments. The financing programmes cater to the term loan requirements of Indian exporters for financing their new project, expansion, modernization, purchase of equipment, R&D, overseas investments and also the working capital requirements.

Finance for Corporate

Research & Development Finance for Export Oriented Units:

EXIM Bank encourages Indian exporters to invest more in their R&D spending in order to develop new products/processes/ IPRs for enhancing export capabilities. Considering the need to bridge the funding gap of Indian exporters in R&D space, the Bank has a dedicated R&D Financing Programme. Under the said Programme, financing for R&D can be extended to any export oriented company/ SPV promoted by companies, irrespective of the nature of industry. The financing covers both capital and revenue expenditure including inter alia:

- Land and building, civil works for housing eligible R&D activities;

- Equipments, tools, computer hardware/ software, miscellaneous fixed assets used in eligible R&D activities;
- Acquisition of technology from India or overseas at the "proof of concept" or design stage, which will be used to develop new product/ process.
- Salaries of R&D personnel, support staff during the R&D project phase including training costs;
- Cost of regulatory approvals, filing and maintenance of patent registration;
- Product documentation and allied costs during the R&D project phase.
- Costs of materials, surveys, technology demonstration studies and field trial
- Any other costs to enhance R&D capability.

Eligibility:

- Export oriented firms with exports (actual/projected) of at least 5 crores or 10% of annual turnover.
- R&D finance is generally extended upto 7 years. However, longer tenors with suitable interest resets would be permissible. Structured repayment can be considered to match the cash flow.
- Upto 80% of the total project cost can be funded.
- Security to include, inter alia, appropriate charge on the assets, Corporate Guarantee, charge/ assignment on the regulatory approval/ IPR, personal guarantee etc.

Pre-shipment/Post-shipment Credit Programme:

EXIM Bank extends export credit to Indian exporters to meet a wide range of trade financing requirements for execution of an export transaction. The Bank provides working capital finance by way pre-shipment credit and post-shipment credit. Bank also extends as part of export credit assistance, non-fund based limits inter alia including issuance of Letters of Credit (both Foreign & inland) and Bank Guarantees (both Foreign & inland) for its clients. The credit limits are generally extended as part of Borrower's consortium limit and are operated as a running account facility. The limits may be renewed for further period subject to satisfactory review of account and depending on the Borrower's export credit requirement. The facilities can be drawn in either Indian Rupee or Foreign Currency.

Eligibility:

- Indian exporters with a track record.
- The limit should be within the MPBF of Borrower's assessed bank finance.
- Margin of 15-20% under pre-shipment and 0-10% under post-shipment.
- Adequate security to be provided. Typical security includes appropriate charge on the current assets including export receivables, ECGC cover etc.

Lending Programme for Export Oriented Units:

EXIM Bank provides term loans to export oriented Indian companies to finance various capital expenditures including certain soft expenditures in order to improve their export capability and to enhance their international competitiveness. Loans/Guarantees are extended for the following purposes: Expansion, modernization, up gradation or diversification projects including acquisition of equipment, technology etc.; export marketing; export product development; setting up of Software Technology Parks;

Eligibility:

Manufacturing/trading/services companies with a minimum export orientation (actual/projected) of 10% of their annual turnover, or exports of 5 crore p.a., whichever is lower [inclusive of exports through Export/Trading Houses], are eligible to avail finance from Exim Bank. Exim Bank financing is available in Indian Rupees and in foreign currency [as per extant RBI guidelines]. The tenor range is usually 7-10 years with a suitable moratorium, and repayments in suitable monthly/ quarterly installments. Promoter margin is minimum 20% and appropriate charge on the fixed assets of the company/project plus any other acceptable security including personal guarantees may be stipulated.

Finance for MSMEs

Apart from the Corporate Banking facilities, there are additional services that Exim Bank offers to support Small and Medium Enterprises.

SME-ADB Line:

EXIM Bank has arranged for a credit line from the Asian Development Bank (ADB) for providing foreign currency term loans to the MSME borrowers in certain specific lagging states of India, viz. Assam, Madhya Pradesh, Orissa, Uttar Pradesh, Chhattisgarh, Jharkhand, Rajasthan and Uttarakhand. These foreign currency term loans can also finance domestic capital expenditure of the borrowers in Indian Rupees, besides meeting their foreign currency capital expenditure requirements. The assistance to these MSMEs will help in increasing competitiveness in the relatively backward states and help in integrating them into the mainstream economy.

Eligibility:

Export oriented MSMEs (as defined in MSMED Act, 2006) incorporated in the above mentioned lagging states

Purpose: To meet long term foreign currency loan requirements of Indian exporting entities in the MSME sector for financing their eligible capital expenditure. pertaining to inter alia setting up of new facilities, expansion/modernization of existing facilities, acquisition of equipment and plant & machinery, setting up of testing/R&D facilities, setting up of captive power plants/co-generation plant, setting up of infrastructure facilities like effluent treatment plants, storages/warehouses, etc. The Tenor of the loan will be upto 7 years including suitable moratorium.

For cluster of Indian MSME EOUs

EXIM Bank, besides providing financial assistance to individual MSME EOUs, also provides financial assistance to Special Purpose Vehicles (SPVs) of a cluster of MSMEs. Term loans are provided to such clusters of MSME units for the following activities:

- Development of new geographically contiguous cluster/industrial park, involving creation & maintenance of common infrastructure and common facilities, including inter alia construction of buildings and civil works, acquisition of assets/technology, for the benefit of industrial units within the cluster/industrial park.

- Development of an industrial estate, by industrial users, industry associations and/or Government bodies.
- Up-gradation of an existing industrial cluster or industrial estate.
- Development of specific infrastructure, including common effluent treatment plant, captive power plant, transportation linkages, hazardous waste disposal.
- Development of Common Facilities Centers like testing centers, cold storages, for industrial clusters, industrial estates, or a group of industries with common interests.

Technology & Innovation Enhancement and Infrastructure Development Fund (TIEID):

With a view to facilitate credit flow to the MSME sector at competitive rates, Exim Bank has set up a Technology and Innovation Enhancement and Infrastructure Development (TIEID) fund of USD 500 mn exclusively for MSMEs, to augment their export competitiveness and internationalisation efforts, by partnering with banks / FIs. TIEID seeks to meet long term foreign currency loan requirements of Indian exporting entities in the MSME sector for meeting capital expenditure, through refinancing of Banks / FIs against their eligible SME financing portfolio.

Eligibility:

Scheduled Commercial Banks / Financial institutions in India having acceptable credit risk for on-lending to MSME units.

Eligible Beneficiary:

Ultimate Beneficiary of the Foreign Currency funds provided to eligible Banks/FIs shall be MSME units in India having a minimum export orientation of 10% of annual turnover or exports of ` 5 crores p.a in absolute terms, whichever is lower. The loan should be used to meet long term foreign currency loan requirements of Indian exporting entities in the MSME sector for meeting eligible capital expenditure. Eligible capital expenditure include technology up gradation, capacity creation, common infrastructure development like captive power plant, common effluent treatment plant, hazardous waste disposal facility, testing facilities etc.

Lending Programme for Financing Creative Economy:

The Creative Industries are those industries which have their origin in individual creativity, skill and talent and which have a potential for wealth and Job creation through the generation and exploitation of intellectual property viz., Advertising, Architecture, Art and Antiques Market, Crafts, Design, Designer Fashion, Film and Video, Interactive Leisure Software, Music, Performing Arts, Publishing, Software and Computer Services, Television and Radio etc. In view of the large untapped potential for increasing exports by the creative industries and in order to provide a strategic focus to this sector and enhance Exim Bank's presence in the creative economy space, and as a corollary, in the MSME segment, Exim Bank has introduced a Programme specifically for financing the Creative Economy.

Eligibility:

The illustrative list of industry sectors include Heritage {Traditional Cultural Expressions (Art & Crafts, Festivals, Celebrations etc), Cultural Sites (Historical Monuments, Museums, Libraries, Archives etc)}; Arts {Visual Arts (Painting, Sculpture, Antique, Photography etc), Performing Arts (Live Music, Theatre, Dance, Opera, Puppetry etc)}; Media { Publishing & Printed Media (Books, Newspapers, Press & other Publications), Audio Visuals (Film, TV & Radio, Broadcasting etc), New Media (Digitised Content, Software, Video Games, Animations etc); Functional Creations { Design (Interior, Graphic, Fashion, Jewellery, Toys etc), Creative Services (Architecture, Advertising, Creative R & D, Cultural Services, Digital Services etc)}

Finance for Grassroots Enterprises

The Bank supports globalisation of enterprises based out of rural areas of the country through its GRID programme. Through this initiative, the Bank extends financial support to promote grassroots initiatives/technologies, particularly those having export potential. The objective of the programme is to help artisans/producer groups/clusters/small enterprises across the country realize remunerative return on their produce essentially through facilitating exports from these units. The group handles credit proposals from such organizations working at the rural /grassroots level and offers tailor-made financial products to cater to their needs. The group is mandated to work towards developing a robust, vibrant and holistic approach in its intervention by providing assistance at various stages of product development / business cycle including capacity building, export capability creation, expansion/diversification and finally exports. The broad areas of support extended by the Bank through its grassroots initiatives inter alia, include capacity building, development of common facility centres, construction of raw material bank, technology up-gradation and creation of export capability.

ELIGIBILITY:

The organisations eligible for support should meet various criteria including, but not limited to the following:

- Should be a legal entity registered under respective State/Central Govt. Act as a Society, Trust, Co-operative, Private Limited Company, Producer Company, or NGO etc;
- Should be working with communities at grassroots level for promoting income generating activities (IGAs) based on the traditional skills using indigenous or locally available materials in the areas of product development & design, capacity building, market development etc.;
- Should have proven track record of creating /adopting sustainable livelihood model which could be up-scaled and replicated across the geographies sharing similar characteristics (demographic, cultural, socio-economic similarities, etc
- Should be exporting, directly or indirectly

A **Line of Credit (LOC)** is a financing mechanism through which Exim Bank extends support for export of projects, equipment, goods and services from India. Exim Bank extends LOCs on its own and also at the behest and with the support of Government of India. Exim Bank extends Lines of Credit to:

a) Foreign Governments or their nominated agencies such as central banks, state owned commercial banks and organizations;

b) National or regional development banks;

c) Overseas financial institutions;

d) Commercial banks abroad;

e) Other suitable overseas entities.

The above mentioned recipients of LOCs act as intermediaries and on lend to overseas buyers for import of Indian equipment, goods and services. LOC is a financing mechanism that provides a safe mode of non-recourse financing option to Indian exporters to enter new export markets or expand business in existing export markets without any payment risk from the overseas importers.

BROAD GUIDELINES AND PROCEDURE FOR GOVERNMENT OF INDIA SUPPORTED LINES OF CREDIT

The Government of India (GOI), in 2003-04, formulated the Indian Development Initiative (IDI), now known as Indian Development and Economic Assistance Scheme [IDEAS] with the objective of sharing India's development experience through,

(a) Capacity building and skills transfer,

(b) Trade, and

(c) Infrastructure development,

by extending concessional Lines of Credit (LOCs) routed through Exim Bank, to developing partner countries, towards creating socio-economic benefits in the partner country. Recently, the Ministry of External Affairs (MEA) has set up the Development Partnership Administration (DPA) Division to deal with India's development assistance programmes abroad, including LOCs routed through Exim Bank. These LOCs are now increasingly being extended to partner countries for large-scale and complex projects (project exports from India).

Bilateral or multilateral assistance, through lines of credit, typically follows a sequence of standard procedures, viz.

a) Project identification and preparation,

b) Review and approval of the project proposal,

c) Offer of the loan, acceptance and execution of loan agreement,

d) Project implementation, monitoring and supervision, and

e) Socio-economic impact assessment after project completion.

The lessons learned from the impact assessment / evaluation act as a feedback to the preparation, review and implementation of future projects. This process forms the 'project cycle.'

Broad guidelines and procedure EXIM bank's own commercial lines of credit

EXIM Bank, since its inception, has been extending LOCs to various countries to promote export of Indian projects, products and services. Under the LOCs extended by Exim Bank to overseas financial institutions, foreign governments, regional and national development banks and commercial banks, Exim Bank finances all items eligible for being exported under the 'Foreign Trade Policy' of Government of India. The credit periods for these LOCs are generally up to 7 years and the LOCs typically carry LIBOR-linked interest rates.

Research & Analysis

EXIM Bank's Research & Analysis Group (RAG) offers a vast range of research products. The Bank's team of experienced economists and strategists provide insights on aspects of international economics, trade and investment through qualitative and quantitative research techniques. RAG monitors the global trends in the world and domestic economies and the impact of these trends, especially on India and other developing economies. RAG caters to the constituents within the Bank, as well as to those external to the Bank such as Government, RBI, exporters/importers, trade & industry associations, external credit agencies, academic institutions and researchers.

The research work carried out in the Group under the broad classification of regional, sectoral and policy related studies, are published in the form of Occasional Papers, Working Papers, Books, etc. These research studies primarily envisage identifying avenues for enhancing India's international engagement.

The group also undertakes country profiles, which assess the economic, political, currency and credit risks involved, along with the export opportunities in the country concerned. Further the profiles provide short-to-medium term economic outlook of a country, indicating the economic risk involved in doing business with country.

As a part of the support services and with an objective to provide contemporary information to Indian traders and investors, the group disseminates information on export opportunities and highlights developments that have a bearing on Indian exports, through its quarterly bulletin, Eximius: Export Advantage. The newsletter comprises of regional and industry outlooks, Bank's activities, opportunities in multilateral funded projects and contract awards, review on select traded currencies and countries, and a section on the happenings during the quarter. The newsletter is a free publication, effectively distributed to a wide network of scholars, economists, institutions, Government of India offices, and export promoting organisations.

The Bank also brings out a bi-monthly publication titled 'Agri Export Advantage' in English, Hindi and 10 regional languages (Assamese, Bengali, Gujarati, Kannada, Marathi, Malayalam, Oriya, Punjabi, Tamil, and Telugu). The newsletter provides stakeholders of Indian agribusiness with updates on global agri-environment and markets, research reports on agri-commodities, international issues related to agri-business, prospective areas of agribusiness, agricultural trade and trade policies, regulatory issues in international trade, WTO Government schemes and assistance, latest international news brief and Bank's activities to promote agri-export from India.

The Bank Brings out a bilingual 'Indo-China Newsletter' featuring areas of cooperation between India and China.

Marketing Advisory Services

EXIM Bank plays a promotional role and seeks to create and enhance export capabilities and international competitiveness of Indian companies. Exim Bank through its Marketing Advisory Services helps Indian exporting firms in their globalisation efforts by proactively assisting in locating overseas distributor(s)/buyer(s)/ partner(s) for their products and services. The Bank assists in identification of opportunities overseas for setting up plants or projects or for acquisition of companies overseas. MAS Group leverages the Bank's high international standing, in-depth knowledge and understanding of the international markets and well established institutional linkages, coupled with its physical presence, to support Indian companies in their overseas marketing initiatives on a success fee basis. Exim Bank has been able to successfully place a range of products in overseas as well as domestic markets.

Eligibility

Any company/firm wanting to export its quality products/services is eligible to avail this benefit as long as it does not fall in the negative list of India's Foreign Trade Policy and International Conventions. Marketing Advisory Services are provided across all the sectors. Information required from the company is as under:-

- Company profile
- Product Brochures
- Printed material
- Prices
- Existing export markets & target markets
- Minimum order quantity
- Quality certifications
- Samples, as and when required

EXPORT ADVISORY SERVICES GROUP (EAS)

The Export Advisory Services Group [EAS] offers a diverse range of information, advisory and support services, which enable exporters to evaluate international risks, exploit export opportunities and improve competitiveness. Value added information and support services are provided to Indian projects exporters on the projects funded by multilateral agencies.

The Group undertakes customised research on behalf of interested companies in the areas such as establishing market potential, defining marketing arrangements, and specifying market distribution channels. Developing export market entry plans, facilitating accomplishment of international quality certification and display of products in trade fairs and exhibitions are other services provided.

The Bank provides a wide range of information, advisory and support services, which complement its financing programmes. These services are provided on a fee basis to Indian companies and overseas entities.

The scope of services includes market-related information, sector and feasibility studies, technology supplier identification, partner search, investment facilitation and development of joint ventures both in India and abroad.

Multilateral Funded Projects Overseas (MFPO)

The Bank provides a package of information and support services to Indian companies to help improve their prospects for securing business in projects funded by the World Bank, Asian Development Bank, African Development Bank, and European Bank for Reconstruction and Development.

EXIM Bank as a Consultant

The Bank's experience in evolving as an institution supporting international trade and investment, in addition to functioning as an export credit agency in a developing country context, is of particular relevance in other developing countries. The Bank has been sharing its experience and expertise by undertaking consultancy assignments. Exim Bank also shares its experience and expertise through provision of on-site exchange of personnel programmes aimed at providing a first-hands experience to the employees of its institutional partners.

Institutional Linkages

The Bank has fostered a network of alliances and institutional linkages with multilateral agencies, export credit agencies, banks and financial institutions, trade promotion bodies, and investment promotion boards to help create an enabling environment for supporting trade and investment. The Global Network of Exim Banks and Development Finance Institutions (G-NEXID) was set up in Geneva in March 2006 through the Bank's initiative, under the auspices of UNCTAD. With the active support of a number of other Exim Banks and Development Finance Institutions from various developing countries, the network has endeavoured to foster enhanced South-South trade and investment cooperation. 'Observer Status' in UNCTAD underscores support for the Forum.

Award for Excellence

The Bank, in association with CII, has instituted an Annual Award for Business Excellence for best Total Quality Management (TQM) practices adopted by an Indian company. The Award is based on the European Foundation for Quality Management (EFQM) model.

POSSIBLE QUESTION

UNIT – IV

PART B

1. Define international business.
2. Write any two issues of international business
3. Write any two roles of international business.
4. Write any two issues of international business.
5. Define international business.

PART C

1. Enumerate the steps in International Negotiations.
2. Explain the role of international business.
3. Explain the International Business outsourcing and its potentials of India.
4. Describe the factors influencing organization structure.
5. Explain the role of international business.
6. Enumerate the development and issues of International Business.
7. Describe the factors influencing organization structure.
8. Explain the International Business outsourcing and its potentials of India.
9. Explain the Roles and Functions of Export and Import Bank (EXIM).
10. Enumerate the development and issues of International Business.

KARPAGAM ACADEMY OF HIGHER EDUCATION
INTERNATIONAL BUSINESS
POSSIBLE QUESTIONS UNIT - IV

Questions	Opt 1	Opt 2	Opt 3	Opt 4	Answer
export Promotion Council is to promote and develop the exports of the ____________.	particular products of country.	only attractive projects of the country.	only services industry products of the country.	overall exports of the country.	overall exports of the country.
is not a cause but a consequence of Globalization?	Deregulation abroad.	Integration of Markets.	Technology and know-how.	institutionalization abroad.	Integration of Markets.
___________ is issued when goods are shipped using ocean transport.	Airway bill.	Transport Document.	Bill of lading.	Bill of Exchange.	Bill of lading.
as proof of the country of origin of goods for importer in his country is _____________.	certificate of the country.	certificate of origin.	bill of lading.	airway bill certificate.	certificate of origin.
received on board the ship the master of the ship issues a document called ____________.	receipt.	call receipt.	mates receipt.	bill of exchange.	mates receipt.
focuses on ________________.	industrial Products.	electronic Products.	machineries.	agricultural products.	agricultural products.
Expand ECGC	Export Credit Guarantee column.	Export Credit Guarantee council.	Export Credit Guarantee Corporation.	Emergency Credit Guarantee Scheme	Export Credit Guarantee Corporation.
which SIDBI came in to existence.	1940	1975	1990	1989	1990
Expand SIDBI	Strong Industries Development Bank of India.	Small Industries Development Bank of India.	State Industries Development Bank of India.	Small scale industries Development Bank of India.	Small Industries Development Bank of India.
ECGC was established in the year _____________.	1957	1967	1976	1980	1957
___________ is managed by the board of directors comprising representatives of the government, RBI and exporting community.	FIEO.	ECGC.	EXIM.	FOB.	ECGC.

____________ came into existence in 1990.	FOB.	SIDBI.	IMF.	EXIM.	SIDBI.
______________ would mean that a letter of credit can not be modified or cancelled.	Irrevocable letter of credit.	Without Recourse letter of Credit.	Transferable letter of credit.	Revocable letter of credit.	Irrevocable letter of credit.
Expand EPCG _____________.	Export Promotion and Customer Goods Scheme.	Export Promotion and Consumer Goods Scheme.	Export Promotion Capital Goods Scheme.	Expansion and Promotion of consumer goods scheme.	Export Promotion Capital Goods Scheme.
Which of the following is a not export promotion measure?	Duty Drawback.	Excise Exemption Facilities.	Fiscal Benefit.	Commodity Board.	Commodity Board.
Software EPC is in ___________.	Chennai.	Kolkata.	Delhi.	Mumbai.	Delhi.
for which there is no specific export promotion council or commodity board will be supported by ___________.	IIFT.	FIEO.	STC.	ITPO.	FIEO.
_____________ is to look after the interest of the member exporters, be a link between the government and the trade and take steps for promotion of exports of the particular commodity	commodity board.	export promotion board.	export promotion council.	trade development authority.	export promotion council.
The _____________ deal with all problems concerning the product	Export Promotion Council.	Commodity Board.	Export Promotion Board.	Trade Development Authority.	Commodity Board.
Expand ITPO	Indian Tariff Promotion Organization.	Indian Tender Promotion Organization.	Indian Trade Promotion Organization.	Trade Promotion Organization.	Indian Trade Promotion Organization.
undertaking by the importers bank if the exporter exports the goods and products documents as stipulated in the letter	Bill of Exchange.	Promissory Note.	Letter of Credit.	Bill of Lading.	Letter of Credit.

when the exporter wants to extend credit to the importer for a specified period.	DP bills.	DA bills.	Open account.	Letter of credits.	DA bills.
can be cancelled or amended by the issuing bank at any time with prior notice to the benefiary.	A. A revocable credit.	B. An irrevocable credit.	C. Revolving credit.	D. Unconfirmed credit.	A. A revocable credit.
or advance granted to a exporter for financing the purchase, processing or packing of goods meant for export.	Pre shipment credit.	Post shipment credit.	Guarantee Credit.	Standby Credit.	Pre shipment credit.
substitute for bank guarantee and is used in countries where issuing of bank guarantee is not	Pre shipment credit.	Post shipment credit.	Guarantee credit.	Standby credit.	Standby credit.
ECGC has designed __________ types of standard policies to provide cover for shipments made on short-term credit.	3	4	5	6	4
administrative control of ____________.	ministry of industries.	ministry of economics.	ministry of finance.	ministry of commerce.	ministry of commerce.
Credits extended beyond 180 days are classified under ____________ and ___________ credit.	advance and deferred.	medium term and long term.	short term and medium term.	short term and long term.	medium term and long term.
Until the early 1990s, India followed _________.	advanced import practices.	a highly restrictive trade policy.	indiscriminative trade strategy.	advance export practices.	a highly restrictive trade policy.
the first two five year plans caused a neglect of __________.	export substitution.	import substitution.	import development.	export development.	export development.
following is widely employed strategy of export promotion?	Export credit.	Market Development Assistance.	Production Assistance.	Export Incentives.	Export Incentives.
An export house is a registered exporter who satisfied certain criteria laid down in ___________.	the export promotion policy.	the EXIM policy.	the export trade policy.	the foreign trade policy.	the foreign trade policy.

ECGC is designed to protect Indian exporters against the risk of non payment of services rendered to foreign parties.	transfer guarantee.	manufacturers credit insurance policy.	market development policy.	service policy.	service policy.
In the state of Maharastra, a provision is available for non-payment of _________ if the exporter or shipper produces Form 14.	sales tax.	excise duty.	customs duty.	port duty.	sales tax.
Products meant by export are exempted from the imposition of __________.	excise duty.	customs duty.	sales tax.	port duty.	excise duty.
goods reach the warehouse, the exporter arranges for a complete set of ____________.	inspection certificates.	duplicate documents.	declaration forms.	shipping documents.	shipping documents.
JDGFT means _____________.	Joint Deputy General of Foreign Trade.	Joint Director General of Foreign Trade.	Joint Deputy General of Frequent Trade.	Director General of Frequent Trade.	Director General of Foreign Trade.
relevant set of documents to the bank during shipment and the process of obtaining payment consequently is called as	certificated of origin.	negotiating the documents.	certificate of origin.	commercial invoice.	negotiating the documents.
the goods are loaded on the vassal is called as __________.	on board bill of lading.	off board bill of lading.	commercial invoice.	letter of credit.	on board bill of lading.
__________ is a draft drawn by the negotiating bank on the opening bank at the time of exports.	A bill of exchange.	A bill of lading.	A letter of credit.	Sight draft.	A letter of credit.
stipulates payment at sight the exporter draws a _________ on the buyer or his bank.	bill of lading.	letter of credit.	sight draft.	usance draft.	sight draft.
ADS means ______________.	Attribution Development System.	Arbitration Documentation System.	Arbitration Development System.	Aligned Documentation System.	Aligned Documentation System.

Duty drawback is allowed as per _________.	the customs Act, 1962.	the Income Tax Act,1961.	the Societies Registration Act.	the Duty Drawback Act,1956.	the customs Act, 1962.
incentives applicable for exports by submitting Form I or _________.	bill of lading.	GR I.	negotiating documents.	bank certificate.	bank certificate.
_________ attested by the bank for his use in claiming incentives.	bank certificate.	commercial invoice.	GR form.	master documents	commercial invoice.
Original GP I form and AR 4 form while submitting to excise authorities before dispatch of goods?	White.	Yellow.	Pink.	Green	White.
Duplicate GP I form and AR 4 form while submitting to excise authorities before dispatch	White.	Yellow.	Pink.	Green.	Yellow.
Triplicate GP I form and AR 4 form while submitting to excise authorities before dispatch	White.	Yellow.	Pink.	Green.	Pink.
receipt of the duplicate copy of the _________ and the necessary certification thereon files a claim with the maritime collector.	AR 4 form.	AR 5 form.	AR 6 form.	AR 7 form.	AR 4 form.
CPT means ____________.	carrier posted to.	carrier paid to.	carriage paid to.	carriage posted to.	carriage paid to.
CFR means _____________.	container and freight.	cost and freight.	carriage and freight.	carrier and freight.	cost and freight.
____________ form is the application for removal of excisable goods from the factory for exports.	EX.	ARE.	GR.	Statutory declaration	ARE.
forms are involved in export procedural activities?	2	3	4	5	2
statement containing full details of the goods shipped.	commercial invoice.	Packing List.	Bill of Lading.	A profoma invoice.	commercial invoice.

prescribed under the laws that govern export import transactions which are mandatory.	Commercial documents.	Regulatory documents.	Mates Receipt.	Bill of Lading.	Regulatory documents.
form described under Foreign Exchange Management Act	Ex Form.	Statutory declaration form.	GR Form.	ARE Form.	GR Form.
for Synthetic & Rayon is located in ________________.	Chennai.	Kolkata.	Delhi.	Mumbai.	Mumbai.
The government of India established The Indian Council of Arbitration. in the year __________	1963	1964	1965	1966	1965
Foreign Trade was setup as ___________, registered under the societies registration act.	an autonomous body.	public sector undertaking.	subsidiary body.	deemed university.	an autonomous body.
Aletter of credit is a letter of payment authority issued by the _________ bank	Shipper's	exporter's	buyer's	EXIM	buyer's

Unit V

SYLLABUS

Foreign Trade Promotion Measures and Organizations in India - Special Economic Zones (SEZs) and Export Oriented Units (EOUs) - Measures for Promoting Foreign Investments into and from India - Indian Joint Ventures and Acquisitions abroad - Financing of Foreign Trade and Payment Terms – Sources of Trade Finance (Banks, Factoring, Forfaiting, Banker's Acceptance and Corporate Guarantee) - Forms of Payment

International Monetary Fund (IMF)

The International Monetary Fund (IMF) and the World Bank are institutions in the United Nations system. They share the same goal of raising living standards in their member countries. Their approaches to this goal are complementary, with the IMF focusing on macroeconomic issues and the World Bank concentrating on long-term economic development and poverty reduction.

History and Purpose

The architects of the Bretton Woods Agreement, John Maynard Keynes and Harry Dexter White, envisioned an institution that would oversee the international monetary system, exchange rates, and international payments to enable countries and their citizens to buy goods and services from each other. They expected that this new global entity would ensure exchange rate stability and encourage its member countries to eliminate the exchange restrictions that hindered trade. Officially, the IMF came into existence in December 1945 with twenty-nine member countries. (The Soviets, who were at Bretton Woods, refused to join the IMF.)

In 1947, the institution's first formal year of operations, the French became the first nation to borrow from the IMF. Over the next thirty years, more countries joined the IMF, including some African countries in the 1960s. The Soviet bloc nations remained the exception and were not part of the IMF until the fall of the Berlin Wall in 1989. The IMF experienced another large increase in members in the 1990s with the addition of Russia; Russia was also placed on the IMF's executive committee. Today, 187 countries are members of the IMF; twenty-four of those countries or groups of countries are represented on the executive board.

The purposes of the International Monetary Fund are as follows:

- To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.
- To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
- To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
- To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.
- To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.
- In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members."Articles of Agreement: Article I—Purposes," International Monetary Fund, accessed May 23, 2011,http://www.imf.org/external/pubs/ft/aa/aa01.htm.

In addition to financial assistance, the IMF also provides member countries with technical assistance to create and implement effective policies, particularly economic, monetary, and banking policy and regulations.

Special Drawing Rights (SDRs)

A Special Drawing Right (SDR) is basically an international monetary reserve asset. SDRs were created in 1969 by the IMF in response to the Triffin Paradox. The Triffin Paradox stated that the more US dollars were used as a base reserve currency, the less faith that countries had in the ability of the US government to convert those dollars to gold. The world was still using the Bretton Woods system, and the initial expectation was that SDRs would replace the US dollar as the global monetary reserve currency, thus solving the Triffin Paradox.

Bretton Woods collapsed a few years later, but the concept of an SDR solidified. Today the value of an SDR consists of the value of four of the IMF's biggest members' currencies—the US dollar, the British pound, the Japanese yen, and the euro—but the currencies do not hold equal weight. SDRs are quoted in terms of US dollars. The basket, or group of currencies, is reviewed every five years by the IMF executive board and is based on the currency's role in international trade and finance. The following chart shows the current valuation in percentages of the four currencies.

Currency	Weighting
US dollar	44 percent
Euro	34 percent
Japanese yen	11 percent
British pound	11 percent

The SDR is not a currency, but some refer to it as a form of IMF currency. It does not constitute a claim on the IMF, which only serves to provide a mechanism for buying, selling, and exchanging SDRs. Countries are allocated SDRs, which are included in the member country's reserves. SDRs can be exchanged between countries along with currencies. The SDR serves as the unit of account of the IMF and some other international organizations, and countries borrow from the IMF in SDRs in times of economic need.

Key roles of IMF

The IMF is playing an expanding role in the global monetary system. The IMF's key roles are the following:

- To promote international monetary cooperation
- To facilitate the expansion and balanced growth of international trade

- To promote exchange stability
- To assist in the establishment of a multilateral system of payments
- To give confidence to members by making the IMF's general resources temporarily available to them under adequate safeguards
- To shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members

The IMF's Current Role and Major Challenges and Opportunities

Criticism and Challenging Areas for the IMF

The IMF supports many developing nations by helping them overcome monetary challenges and to maintain a stable international financial system. Despite this clearly defined purpose, the execution of its work can be very complicated and can have wide repercussions for the recipient nations. As a result, the IMF has both its critics and its supporters. The challenges for organizations like the the IMF and the World Bank center not only on some of their operating deficiencies but also on the global political environment in which they operate. The IMF has been subject to a range of criticisms that are generally focused on the conditions of its loans, its lack of accountability, and its willingness to lend to countries with bad human rights records.David N. Balaam and Michael Veseth, Introduction to International Political Economy, 4th ed. (Upper Saddle River, NJ: Pearson Education International/Prentice Hall), 2005.

These criticisms include the following:

1. **Conditions for loans**

- The IMF makes the loan given to countries conditional on the implementation of certain economic policies, which typically include the following:
- Reducing government borrowing (higher taxes and lower spending)
- Higher interest rates to stabilize the currency
- Allowing failing firms to go bankrupt

- Structural adjustment (privatization, deregulation, reducing corruption and bureaucracy)“Criticism of IMF,” Economics Help, accessed June 28, 2010,http://www.economicshelp.org/dictionary/i/imf-criticism.html.

The austere policies have worked at times but always extract a political toll as the impact on average citizens is usually quite harsh. The opening case in Chapter 2 "International Trade and Foreign Direct Investment" presents the current impact of IMF policies on Greece. Some suggest that the loan conditions are “based on what is termed the ‘Washington Consensus,’ focusing on liberalisation—of trade, investment and the financial sector—, deregulation and privatisation of nationalised industries. Often the conditionalities are attached without due regard for the borrower countries’ individual circumstances and the prescriptive recommendations by the World Bank and IMF fail to resolve the economic problems within the countries.

IMF conditionalities may additionally result in the loss of a state’s authority to govern its own economy as national economic policies are predetermined under IMF packages

2. **Exchange rate reforms.**

- “When the IMF intervened in Kenya in the 1990s, they made the Central bank remove controls over flows of capital. The consensus was that this decision made it easier for corrupt politicians to transfer money out of the economy (known as the Goldman scandal). Critics argue this is another example of how the IMF failed to understand the dynamics of the country that they were dealing with—insisting on blanket reforms.”“Criticism of IMF,” Economics Help, accessed June 28, 2010, http://www.economicshelp.org/dictionary/i/imf-criticism.html.

3. **Devaluations.**

- In the initial stages, the IMF has been criticized for allowing inflationary devaluations.“Criticism of IMF,” Economics Help, accessed June 28, 2010,http://www.economicshelp.org/dictionary/i/imf-criticism.html.

4. **Free-market criticisms of the IMF**

- "Believers in free markets argue that it is better to let capital markets operate without attempts at intervention. They argue attempts to influence exchange rates only make things worse—it is better to allow currencies to reach their market level."

5. **Lack of transparency and involvement**

- The IMF has been criticized for "imposing policy with little or no consultation with affected countries.""Criticism of IMF," Economics Help, accessed June 28, 2010, http://www.economicshelp.org/dictionary/i/imf-criticism.html.

6. **Supporting military dictatorships**

- The IMF has been criticized over the decades for supporting military dictatorships."Criticism of IMF," Economics Help, accessed June 28, 2010,http://www.economicshelp.org/dictionary/i/imf-criticism.html.

Opportunities and Future Outlook for the IMF

The 2008 global economic crisis is one of the toughest situations that the IMF has had to contend with since the Great Depression.

For most of the first decade of the twenty-first century, global trade and finance fueled a global expansion that enabled many countries to repay any money they had borrowed from the IMF and other official creditors. These countries also used surpluses in trade to accumulate foreign exchange reserves. The global economic crisis that began with the 2007 collapse of mortgage lending in the United States and spread around the world in 2008 was preceded by large imbalances in global capital flows. Global capital flows fluctuated between 2 and 6 percent of world GDP between 1980 and 1995, but since then they have risen to 15 percent of GDP. The most rapid increase has been experienced by advanced economies, but emerging markets and developing countries have also become more financially integrated.

The founders of the Bretton Woods system had taken for granted that private capital flows would never again resume the prominent role they had in the nineteenth and early twentieth centuries, and the IMF had traditionally lent to members facing current account difficulties. The 2008 global crisis uncovered fragility in the advanced financial markets that soon led to the worst global downturn since the Great Depression.

Suddenly, the IMF was inundated with requests for standby arrangements and other forms of financial and policy support.

The international community recognized that the IMF's financial resources were as important as ever and were likely to be stretched thin before the crisis was over. With broad support from creditor countries, the IMF's lending capacity tripled to around $750 billion. To use those funds effectively, the IMF overhauled its lending policies. It created a flexible credit line for countries with strong economic fundamentals and a track record of successful policy implementation. Other reforms targeted low-income countries. These factors enabled the IMF to disburse very large sums quickly; the disbursements were based on the needs of borrowing countries and were not as tightly constrained by quotas as in the past.

Many observers credit the IMF's quick responses and leadership role in helping avoid a potentially worse global financial crisis. As noted in the Chapter 5 "Global and Regional Economic Cooperation and Integration" opening case on Greece, the IMF has played a role in helping countries avert widespread financial disasters. The IMF's requirements are not always popular but are usually effective, which has led to its expanding influence. The IMF has sought to correct some of the criticisms; according to a Foreign Policy in Focus essay designed to stimulate dialogue on the IMF, the fund's strengths and opportunities include the following:

Flexibility and speed

"In March 2009, the IMF created the Flexible Credit Line (FCL), which is a fast-disbursing loan facility with low conditionality aimed at reassuring investors by injecting liquidity…Traditionally, IMF loan programs require the imposition of austerity measures such as raising interest rates that can reduce foreign investment…In the case of the FCL, countries qualify for it not on the basis of their promises, but on the basis of their history. Just as individual borrowers with good credit histories are eligible for loans at lower interest rates than their risky counterparts, similarly, countries with sound macroeconomic fundamentals are eligible for drawings under the FCL.

Cheerleading

"The Fund is positioning itself to be less of an adversary and more of a cheerleader to member countries. For some countries that need loans more for reassurance than reform, these changes to the Fund toolkit are welcome."Martin S. Edwards, "The IMF's New Toolkit: New Opportunities, Old Challenges," Foreign Policy in Focus, September 17, 2009, accessed June 28, 2010.

Adaptability

"Instead of providing the same medicine to all countries regardless of their particular problems, the new loan facilities are intended to aid reform-minded governments by providing short-term resources to reassure investors. In this manner, they help politicians in developing countries manage the downside costs of integration.

Transparency

The IMF has made efforts to improve its own transparency and continues to encourage its member countries to do so. Supporters note that this creates a barrier to any one or more countries that have more geopolitical influence in the organization. In reality, the major economies continue to exert influence on policy and implementation.

To underscore the global expectations for the IMF's role, China, Russia, and other global economies have renewed calls for the G20 to replace the US dollar as the international reserve currency with a new global system controlled by the IMF.

The Financial Times reported that Zhou Xiaochuan, the Chinese central bank's governor, said the goal would be to create a reserve currency that is disconnected from individual nations and is able to remain stable in the long run, thus removing the inherent deficiencies caused by using credit-based national currencies.

Although Mr. Zhou did not mention the US dollar, the essay gave a pointed critique of the current dollar-dominated monetary system:

"The outbreak of the crisis and its spillover to the entire world reflected the inherent vulnerabilities and systemic risks in the existing international monetary system," Mr Zhou wrote.

China has little choice but to hold the bulk of its $2,000bn of foreign exchange reserves in US dollars, and this is unlikely to change in the near future.

To replace the current system, Mr. Zhou suggested expanding the role of special drawing rights, which were introduced by the IMF in 1969 to support the Bretton Woods fixed exchange rate regime but became less relevant once that collapsed in the 1970s….

China is politically and economically motivated to recommend an alternative reserve currency. Politically, the country whose currency is the reserve currency is perceived as the dominant economic power, as Section 6.1 "What Is the International Monetary System?" discusses. Economically, China has come under increasing global pressure to increase the value of its currency, the renminbi, whichSection 6.3 "Understanding How International Monetary Policy, the IMF, and the World Bank Impact Business Practices" discusses in greater depth.

The IMF's mandate

The IMF promotes international monetary cooperation and provides policy advice and technical assistance to help countries build and maintain strong economies. The Fund also makes loans and helps countries design policy programs to solve balance of payments problems when sufficient financing on affordable terms cannot be obtained to meet net international payments. IMF loans are short and medium term and funded mainly by the pool of quota contributions that its members provide. IMF staffs are primarily economists with wide experience in macroeconomic and financial policies.

Framework for cooperation

The IMF and World Bank collaborate regularly and at many levels to assist member countries and work together on several initiatives. In 1989, the terms for their cooperation were set out in a concordat to ensure effective collaboration in areas of shared responsibility.

High-level coordination

During the Annual Meetings of the Boards of Governors of the IMF and the World Bank, Governors consult and present their countries' views on current issues in international economics and finance. The Boards of Governors decide how to address international economic and financial issues and set priorities for the organizations.

A group of IMF and World Bank Governors also meet as part of the Development Committee, whose meetings coincide with the Spring and Annual Meetings of the IMF and the World Bank. This committee was established in 1974 to advise the two institutions on critical development issues and on the financial resources required to promote economic development in low-income countries.

Management consultation

The Managing Director of the IMF and the President of the World Bank meet regularly to consult on major issues. They also issue joint statements and occasionally write joint articles, and have visited several regions and countries together.

Staff collaboration

The staffs of the IMF and the Bank collaborate closely on country assistance and policy issues that are relevant for both institutions. The two institutions also often conduct country missions in parallel and staff participate in each other's missions. IMF assessments of a country's general economic situation and policies provide input to the Bank's assessments of potential development projects or reforms. Similarly, Bank advice on structural and sectoral reforms is taken into account by the IMF in its policy advice. The staffs of the two institutions also cooperate on the conditionality involved in their respective lending programs.

The 2007 external review of Bank-Fund collaboration led to a Joint Management Action Plan on World Bank-IMF Collaboration (JMAP) to further enhance the way the two institutions work together. Under the plan, Fund and Bank country teams discuss their country-level work programs, which identify macro-critical sectoral issues, the division of labor, and the work needed from each institution in the coming year. A review of Bank-Fund Collaboration underscored the importance of these joint country team consultations in enhancing collaboration.

Reducing debt burdens. The IMF and World Bank also work together to reduce the external debt burdens of the most heavily indebted poor countries under theHeavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). The objective is to help low-income countries achieve their development goals without creating future debt problems. IMF and Bank staff jointly prepare country debt sustainability analyses under the Debt Sustainability Framework (DSF) developed by the two institutions.

Reducing poverty

In 1999, the IMF and the World Bank launched the Poverty Reduction Strategy Paper (PRSP) approach as a key component in the process leading to debt relief under the HIPC Initiative and an important anchor inconcessional lending by the Fund and the Bank. While PRSPs continue to underpin the HIPC Initiative, the World Bank has adopted in July 2014 a new consultative approach to country engagement focused on supporting its members' policies to eliminate extreme poverty and promote shared prosperity. The Fund continues to rely on PRSPs to support the link between poverty reduction objectives and Fund engagement under the Extended Credit Facilityand the Policy Support Instrument.

Monitoring progress on the MDGs

Since 2004, the Fund and the Bank have worked together on the Global Monitoring Report (GMR), which assesses progress needed to achieve the UN Millennium Development Goals (MDGs). The report also considers how well developing countries, developed countries, and the international financial institutions are contributing to the development partnership and strategy to meet the MDGs.

Assessing financial stability

The IMF and the World Bank are also working together to make financial sectors in member countries resilient and well regulated. The Financial Sector Assessment Program (FSAP) was introduced in 1999 to identify the strengths and vulnerabilities of a country's financial system and recommend appropriate policy responses.

More detailed information can be found on the institutions' websites:www.imf.org and www.worldbank.org.

World Bank

The World Bank came into existence in 1944 at the Bretton Woods conference. Its formal name is the International Bank for Reconstruction and Development (IBRD), which clearly states its primary purpose of financing economic development. The World Bank's first loans were extended during the late 1940s to finance the reconstruction of the war-ravaged economies of Western Europe. When these nations recovered some measure of economic self-sufficiency, the World Bank turned its attention to assisting the world's poorer nations. The World Bank has one central purpose: to promote economic and social progress in developing countries by helping raise productivity so that their people may live a better and fuller life:

[In 2009,] the World Bank provided $46.9 billion for 303 projects in developing countries worldwide, with our financial and/or technical expertise aimed at helping those countries reduce poverty.

The Bank is currently involved in more than 1,800 projects in virtually every sector and developing country. The projects are as diverse as providing microcredit in Bosnia and Herzegovina, raising AIDS-prevention awareness in Guinea, supporting education of girls in Bangladesh, improving health care delivery in Mexico, and helping East Timor rebuild upon independence and India rebuild Gujarat after a devastating earthquake."Projects," The World Bank, accessed February 9, 2011,http://go.worldbank.org/M7ARDFNB60.

Today, The World Bank consists of two main bodies, the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA), established in 1960. The World Bank is part of the broader World Bank Group, which consists of five interrelated institutions: the IBRD; the IDA; the International Finance Corporation (IFC), which was established in 1956; the Multilateral Investment Guarantee Agency (MIGA), which was established in 1988; and the International Centre for Settlement of Investment Disputes (ICSID), which was established in 1966. These additional members of the World Bank Group have specific purposes as well. The IDA typically provides interest-free loans to countries with sovereign guarantees. The IFC provides loans, equity, risk-management tools, and structured finance. Its goal is to facilitate sustainable development by improving investments in the private sector. The MIGA focuses on improving the foreign direct investment of developing countries. The ICSID provides a means for dispute resolution between governments and private investors with the end goal of enhancing the flow of capital.

The current primary focus of the World Bank centers on six strategic themes:

- The poorest countries: Poverty reduction and sustainable growth in the poorest countries, especially in Africa
- Post-conflict and fragile states: Solutions to the special challenges of post-conflict countries and fragile states

- Middle-income countries: Development solutions with customized services as well as financing for middle-income countries
- Global public goods: Addressing regional and global issues that cross national borders, such as climate change, infectious diseases, and trade
- The Arab world: Greater development and opportunity in the Arab world
- Knowledge and learning: Leveraging the best global knowledge to support development."To Meet Global Challenges, Six Strategic Themes," The World Bank, accessed February 9, 2011.

The World Bank provides low-interest loans, interest-free credits, and grants to developing countries. There's always a government (or "sovereign") guarantee of repayment subject to general conditions. The World Bank is directed to make loans for projects but never to fund a trade deficit. These loans must have a reasonable likelihood of being repaid. The IDA was created to offer an alternative loan option. IDA loans are free of interest and offered for several decades, with a ten-year grace period before the country receiving the loan needs to begin repayment. These loans are often called soft loans.

Since it issued its first bonds in 1947, the IBRD generates funds for its development work through the international capital markets (which Chapter 7 "Foreign Exchange and the Global Capital Markets"covers). The World Bank issues bonds, typically about $25 billion a year. These bonds are rated AAA (the highest possible rating) because they are backed by member states' shared capital and by borrowers' sovereign guarantees. Because of the AAA credit rating, the World Bank is able to borrow at relatively low interest rates. This provides a cheaper funding source for developing countries, as most developing countries have considerably low credit ratings. The World Bank charges a fee of about 1 percent to cover its administrative overheads.

Current Role and Major Challenges and Opportunities of World Bank

Like the IMF, the World Bank has both its critics and its supporters. The criticisms of the World Bank extend from the challenges that it faces in the global operating environment. Some of these challenges have complicated causes; some result from the conflict between nations and the global financial crisis. The following are four examples of the world's difficult needs that the World Bank tries to address:

- Even in 2010, over 3 billion people lived on less than $2.50 a day.

- At the start of the twenty-first century, almost a billion people couldn't read a book or sign their names.
- Less than 1 percent of what the world spends each year on weapons would have put every child into school by the year 2000, but it didn't happen.
- Fragile states such as Afghanistan, Rwanda, and Sri Lanka face severe development challenges: weak institutional capacity, poor governance, political instability, and often ongoing violence or the legacy of past conflict. Anup Shah, "Causes of Poverty," Global Issues, last modified April 25, 2010, accessed August 1, 2010, http://www.globalissues.org/issue/2/causes-of-poverty.

According to the Encyclopedia of the New American Nation and the New York Times, the World Bank is criticized primarily for the following reasons:

Administrative incompetence

The World Bank and its lending practices are increasingly scrutinized, with critics asserting that "the World Bank has shifted from being a 'lender of last resort' to an international welfare organization," resulting in an institution that is "bloated, incompetent, and even corrupt." Also incriminating is that "the bank's lax lending standards have led to a rapidly deteriorating loan portfolio."Encyclopedia of the New American Nation, s.v., "International Monetary Fund and World Bank—World Bank Critics on the Right and Left," accessed June 29, 2010.

Rewarding or supporting inefficient or corrupt countries

The bank's lending policies often reward macroeconomic inefficiency in the underdeveloped world, allowing inefficient nations to avoid the types of fundamental reforms that would in the long run end poverty in their countries. Many analysts note that the best example is to compare the fantastic growth in East Asia to the deplorable economic conditions of Africa. In 1950 the regions were alike—South Korea had a lower per capita GDP than Nigeria. But by pursuing macroeconomic reforms, high savings, investing in education and basic social services, and opening their economies to the global trading order, the "Pacific Tigers" have been able to lift themselves out of poverty and into wealth with very little help from the World Bank. Many countries in

Africa, however, have relied primarily on multilateral assistance from organizations like the World Bank while avoiding fundamental macroeconomic reforms, with deplorable but predictable results.

Conservatives point out that the World Bank has lent more than $350 billion over a half-century, mostly to the underdeveloped world, with little to show for it. One study argued that of the sixty-six countries that received funding from the bank from 1975 to 2000, well over half were no better off than before, and twenty were actually worse off. The study pointed out that Niger received $637 million between 1965 and 1995, yet its per capita GNP had fallen, in real terms, more than 50 percent during that time. In the same period Singapore, which received one-seventh as much World Bank aid, had seen its per capita GNP increase by more than 6 percent a year.

Focusing on large projects rather than local initiatives

Some critics claim that World Bank loans give preference to "large infrastructure projects like building dams and electric plants over projects that would benefit the poor, such as education and basic health care." The projects often destroy the local environment, including forests, rivers, and fisheries. Some estimates suggest "that more than two and a half million people have been displaced by projects made possible through World Bank loans." Failed projects, argue environmentalists and antiglobalization groups, are particularly illustrative: "The Sardar Sarovar dam on the Narmada River in India was expected to displace almost a quarter of a million people into squalid resettlement sites. The Polonoroeste Frontier Development scheme has led to large-scale deforestation in the Brazilian rain forest. In Thailand, the Pak Mun dam has destroyed the fisheries of the Mun River, impoverishing thousands who had made their living fishing and forever altering the diet of the region."Encyclopedia of the New American Nation, s.v., "International Monetary Fund and World Bank—World Bank Critics on the Right and Left," accessed June 29, 2010,http://www.americanforeignrelations.com/E-N/International-Monetary-Fund-and-World-Bank-World-bank-critics-on-the-right-and-left.html. Further, the larger projects become targets for corruption by local government officials because there is so much money involved.

Negative influence on theory and practice

As one of the two Bretton Woods Institutions, the World Bank plays a large role in research, training, and policy formulation. Critics worry that because "the World Bank and the IMF are regarded as experts in the field of financial regulation and economic development, their views and prescriptions may undermine or eliminate alternative perspectives on development.""What Are the Main Concerns and Criticism about the World Bank and IMF?," Bretton Woods Project, January 25, 2007, accessed February 9, 2011,http://www.brettonwoodsproject.org/item.shtml?x=320869.

Dominance of G7 countries

The industrialized countries dominate the World Bank (and IMF) governance structures. Decisions are typically made and policies implemented by these leading countries—the G7—because they are the largest donors, some suggest without sufficient consultation with poor and developing countries.

Opportunities and Future Outlook for the World Bank

As vocal as the World Bank's critics are, so too are its supporters. The World Bank is praised by many for engaging in development projects in remote locations around the globe to improve living standards and reduce poverty. The World Bank's current focus is on helping countries achieve the Millennium Development Goals (MDGs), which are eight international development goals, established in 2000 at the Millennium Summit, that all 192 United Nations member states and twenty-three international organizations have agreed to achieve by the year 2015. They include reducing extreme poverty, reducing child mortality rates, fighting disease epidemics such as AIDS, and developing a global partnership for development. The World Bank is focused on the following four key issues:

Increased transparency

In response to the criticisms over the decades, the World Bank has made progress. More of the World Bank's decision making and country assessments are available publicly. The World Bank has continued to work with countries to combat corruption both at the country and bank levels.

Expanding social issues in the fight on poverty

In 2001, the World Bank began to incorporate gender issues into its policy. "Two years later the World Bank announced that it was starting to evaluate all of its projects for their effects on women and girls," noting that "poverty is experienced differently by men and women" and "a full understanding of the gender dimensions of poverty can significantly change the definition of priority policy and program interventions.

Improvements in countries' competitiveness and increasing exports

The World Bank's policies and its role as a donor have helped improve the ability of some countries to secure more of the global revenues for basic commodities. In Rwanda, for example, reforms transformed the country's coffee industry and increased exports. Kenya has expanded its exports of cut flowers, and Uganda has improved its fish-processing industry. World Bank efforts have also helped African financial companies develop.

Improving efficiencies in diverse industries and leveraging the private sector

The World Bank has worked closely with businesses in the private sector to develop local infrastructure, including power, transportation, telecommunications, health care, and education.Shanta Devarajan, "African Successes—Listing the Success Stories," Africa Can…End Poverty (blog), The World Bank Group, September 17, 2009, accessed May 23, 2011,http://blogs.worldbank.org/africacan/african-successes-listing-the-success-stories. In Afghanistan, for example, small dams are built and maintained by the locals themselves to support small industries processing local produce.

The World Bank continues to play an integral role in helping countries reduce poverty and improve the well-being of their citizens. World Bank funding provides a resource to countries to utilize the services of global companies to accomplish their objectives.

World Bank

The World Bank consists of two main bodies, the IBRD and the International Development Association (IDA).

The World Bank Group includes the following interrelated institutions:

- IBRD, which makes loans to countries with the purpose of building economies and reducing poverty
- IDA, which typically provides interest-free loans to countries with sovereign guarantees

- International Finance Corporation (IFC), which provides loans, equity, risk-management tools, and structured finance with the goal of facilitating sustainable development by improving investments in the private sector
- Multilateral Investment Guarantee Agency (MIGA), which focuses on improving the foreign direct investment of the developing countries
- International Centre for Settlement of Investment Disputes (ICSID), which provides a means for dispute resolution between governments and private investors, with the end goal of enhancing the flow of capital

The World Bank's mandate

The World Bank promotes long-term economic development and poverty reduction by providing technical and financial support to help countries reform particular sectors or implement specific projects—such as, building schools and health centers, providing water and electricity, fighting disease, and protecting the environment. World Bank assistance is generally long term and is funded both by member country contributions and through bond issuance. World Bank staff are often specialists in particular issues, sectors, or techniques.

The IMF and the World Bank

If you have difficulty distinguishing the World Bank from the International Monetary Fund, you are not alone. Most people have only the vaguest idea of what these institutions do, and very few people indeed could, if pressed on the point, say why and how they differ. Even John Maynard Keynes, a founding father of the two institutions and considered by many the most brilliant economist of the twentieth century, admitted at the inaugural meeting of the International Monetary Fund that he was confused by the names: he thought the Fund should be called a bank, and the Bank should be called a fund. Confusion has reigned ever since.

Known collectively as the Bretton Woods Institutions after the remote village in New Hampshire, U.S.A., where they were founded by the delegates of 44 nations in July 1944, the Bank and the IMF are twin intergovernmental pillars supporting the structure of the world's economic and financial order. That there are two pillars rather than one is no accident. The international community was consciously trying to establish a division of labor in setting up the two agencies. Those who deal professionally with the IMF and Bank find them categorically distinct. To the rest of the world, the niceties of the division of labor are even more mysterious than are the activities of the two institutions.

Similarities between them do little to resolve the confusion. Superficially the Bank and IMF exhibit many common characteristics. Both are in a sense owned and directed by the governments of member nations. The People's Republic of China, by far the most populous state on earth, is a member, as is the world's largest industrial power (the United States). In fact, virtually every country on earth is a member of both institutions. Both institutions concern themselves with economic issues and concentrate their efforts on broadening and strengthening the economies of their member nations.

Staff members of both the Bank and IMF often appear at international conferences, speaking the same recondite language of the economics and development professions, or are reported in the media to be negotiating involved and somewhat mystifying programs of economic adjustment with ministers of finance or other government officials. The two institutions hold joint annual meetings, which the news media cover extensively. Both have headquarters in Washington, D.C., where popular confusion over what they do and how they differ is about as pronounced as everywhere else.

For many years both occupied the same building and even now, though located on opposite sides of a street very near the White House, they share a common library and other facilities, regularly exchange economic data, sometimes present joint seminars, daily hold informal meetings, and occasionally send out joint missions to member countries.

Despite these and other similarities, however, the Bank and the IMF remain distinct. The fundamental difference is this: the Bank is primarily a development institution; the IMF is a cooperative institution that seeks to maintain an orderly system of payments and receipts between nations. Each has a different purpose, a distinct structure, receives its funding from different sources, assists different categories of members, and strives to achieve distinct goals through methods peculiar to it.

Purposes

At Bretton Woods the international community assigned to the World Bank the aims implied in its formal name, the International Bank for Reconstruction and Development (IBRD), giving it primary responsibility for financing economic development. The Bank's first loans were extended during the late 1940s to finance the reconstruction of the war-ravaged economies of Western Europe. When these nations recovered some measure of economic self-sufficiency, the Bank turned its attention to assisting the world's poorer nations, known as developing countries, to which it has since the 1940s loaned more than $330 billion. The World Bank has one central purpose: to promote economic and social progress in developing countries by helping to raise productivity so that their people may live a better and fuller life.

The international community assigned to the IMF a different purpose. In establishing the IMF, the world community was reacting to the unresolved financial problems instrumental in initiating and protracting the Great Depression of the 1930s: sudden, unpredictable variations in the exchange values of national currencies and a widespread disinclination among governments to allow their national currency to be exchanged for foreign currency. Set up as a voluntary and cooperative institution, the IMF attracts to its membership nations that are prepared, in a spirit of enlightened self-interest, to relinquish some measure of national sovereignty by abjuring practices injurious to the economic well-being of their fellow member nations.

The rules of the institution, contained in the IMF's Articles of Agreement signed by all members, constitute a code of conduct. The code is simple: it requires members to allow their currency to be exchanged for foreign currencies freely and without restriction, to keep the IMF informed of changes they contemplate in financial and monetary policies that will affect fellow members' economies, and, to the extent possible, to modify these policies on the advice of the IMF to accommodate the needs of the entire membership. To help nations abide by the code of conduct, the IMF administers a pool of money from which members can borrow when they are in trouble. The IMF is not, however, primarily a lending institution as is the Bank.

It is first and foremost an overseer of its members' monetary and exchange rate policies and a guardian of the code of conduct. Philosophically committed to the orderly and stable growth of the world economy, the IMF is an enemy of surprise. It receives frequent reports on members' economic policies and prospects, which it debates, comments on, and communicates to the entire membership so that other members may respond in full knowledge of the facts and a clear understanding of how their own domestic policies may affect other countries. The IMF is convinced that a fundamental condition for international prosperity is an orderly monetary system that will encourage trade, create jobs, expand economic activity, and raise living standards throughout the world. By its constitution the IMF is required to oversee and maintain this system, no more and no less.

Size and Structure

The IMF is small (about 2,300 staff members) and, unlike the World Bank, has no affiliates or subsidiaries. Most of its staff members work at headquarters in Washington, D.C., although three small offices are maintained in Paris, Geneva, and at the United Nations in New York. Its professional staff members are for the most part economists and financial experts.

The structure of the Bank is somewhat more complex. The World Bank itself comprises two major organizations: the International Bank for Reconstruction and Development and the International Development Association (IDA). Moreover, associated with, but legally and financially separate from the World Bank are the International Finance Corporation, which mobilizes funding for private enterprises in developing countries, the International Center for Settlement of Investment Disputes, and the Multilateral Guarantee Agency.

With over 7,000 staff members, the World Bank Group is about three times as large as the IMF, and maintains about 40 offices throughout the world, although 95 percent of its staff work at its Washington, D.C., headquarters. The Bank employs a staff with an astonishing range of expertise: economists, engineers, urban planners, agronomists, statisticians, lawyers, portfolio managers, loan officers, project appraisers, as well as experts in telecommunications, water supply and sewerage, transportation, education, energy, rural development, population and health care, and other disciplines.

Source of Funding

The World Bank is an investment bank, intermediating between investors and recipients, borrowing from the one and lending to the other. Its owners are the governments of its 180 member nations with equity shares in the Bank, which were valued at about $176 billion in June 1995. The IBRD obtains most of the funds it lends to finance development by market borrowing through the issue of bonds (which carry an AAA rating because repayment is guaranteed by member governments) to individuals and private institutions in more than 100 countries.

Its concessional loan associate, IDA, is largely financed by grants from donor nations. The Bank is a major borrower in the world's capital markets and the largest nonresident borrower in virtually all countries where its issues are sold. It also borrows money by selling bonds and notes directly to governments, their agencies, and central banks. The proceeds of these bond sales are lent in turn to developing countries at affordable rates of interest to help finance projects and policy reform programs that give promise of success.

Despite Lord Keynes's profession of confusion, the IMF is not a bank and does not intermediate between investors and recipients. Nevertheless, it has at its disposal significant resources, presently valued at over $215 billion. These resources come from quota subscriptions, or membership fees, paid in by the IMF's 182 member countries. Each member contributes to this pool of resources a certain amount of money proportionate to its economic size and strength (richer countries pay more, poorer less). While the Bank borrows and lends, the IMF is more like a credit union whose members have access to a common pool of resources (the sum total of their individual contributions) to assist them in times of need. Although under special and highly restrictive circumstances the IMF borrows from official entities (but not from private markets), it relies principally on its quota subscriptions to finance its operations. The adequacy of these resources is reviewed every five years.

Recipients of Funding

Neither wealthy countries nor private individuals borrow from the World Bank, which lends only to creditworthy governments of developing nations. The poorer the country, the more favorable the conditions under which it can borrow from the Bank. Developing countries whose per capita gross national product (GNP) exceeds $1,305 may borrow from the IBRD. (Per capita GNP, a less formidable term than it sounds, is a measure of wealth, obtained by dividing the value of goods and services produced in a country during one year by the number of people in that country.)

These loans carry an interest rate slightly above the market rate at which the Bank itself borrows and must generally be repaid within 12-15 years. The IDA, on the other hand, lends only to governments of very poor developing nations whose per capita GNP is below $1,305, and in practice IDA loans go to countries with annual per capita incomes below $865. IDA loans are interest free and have a maturity of 35 or 40 years.

In contrast, all member nations, both wealthy and poor, have the right to financial assistance from the IMF. Maintaining an orderly and stable international monetary system requires all participants in that system to fulfill their financial obligations to other participants. Membership in the IMF gives to each country that experiences a shortage of foreign exchange--preventing it from fulfilling these obligations--temporary access to the IMF's pool of currencies to resolve this difficulty, usually referred to as a balance of payments problem.

These problems are no respecter of economic size or level of per capita GNP, with the result that over the years almost all members of the IMF, from the smallest developing country to the largest industrial country, have at one time or other had recourse to the IMF and received from it financial assistance to tide them over difficult periods. Money received from the IMF must normally be repaid within three to five years, and in no case later than ten years. Interest rates are slightly below market rates, but are not so concessional as those assigned to the World Bank's IDA loans. Through the use of IMF resources, countries have been able to buy time to rectify economic policies and to restore growth without having to resort to actions damaging to other members' economies.

World Bank Operations

The World Bank exists to encourage poor countries to develop by providing them with technical assistance and funding for projects and policies that will realize the countries' economic potential. The Bank views development as a long-term, integrated endeavor.

During the first two decades of its existence, two thirds of the assistance provided by the Bank went to electric power and transportation projects. Although these so-called infrastructure projects remain important, the Bank has diversified its activities in recent years as it has gained experience with and acquired new insights into the development process.

The Bank gives particular attention to projects that can directly benefit the poorest people in developing countries. The direct involvement of the poorest in economic activity is being promoted through lending for agriculture and rural development, small-scale enterprises, and urban development. The Bank is helping the poor to be more productive and to gain access to such necessities as safe water and waste-disposal facilities, health care, family-planning assistance, nutrition, education, and housing.

Within infrastructure projects there have also been changes. In transportation projects, greater attention is given to constructing farm-to-market roads. Rather than concentrating exclusively on cities, power projects increasingly provide lighting and power for villages and small farms. Industrial projects place greater emphasis on creating jobs in small enterprises. Labor-intensive construction is used where practical. In addition to electric power, the Bank is supporting development of oil, gas, coal, fuel wood, and biomass as alternative sources of energy.

The Bank provides most of its financial and technical assistance to developing countries by supporting specific projects. Although IBRD loans and IDA credits are made on different financial terms, the two institutions use the same standards in assessing the soundness of projects. The decision whether a project will receive IBRD or IDA financing depends on the economic condition of the country and not on the characteristics of the project.

Its borrowing member countries also look to the Bank as a source of technical assistance. By far the largest element of Bank-financed technical assistance--running over $1 billion a year recently--is that financed as a component of Bank loans or credits extended for other purposes. But the amount of Bank-financed technical assistance for free-standing loans and to prepare projects has also increased.

The Bank serves as executing agency for technical assistance projects financed by the United Nations Development Program in agriculture and rural development, energy, and economic planning. In response to the economic climate in many of its member countries, the Bank is now emphasizing technical assistance for institutional development and macroeconomic policy formulation.

Every project supported by the Bank is designed in close collaboration with national governments and local agencies, and often in cooperation with other multilateral assistance organizations. Indeed, about half of all Bank-assisted projects also receive co-financing from official sources, that is, governments, multilateral financial institutions, and export-credit agencies that directly finance the procurement of goods and services, and from private sources, such as commercial banks.

In making loans to developing countries, the Bank does not compete with other sources of finance. It assists only those projects for which the required capital is not available from other sources on reasonable terms.

Through its work, the Bank seeks to strengthen the economies of borrowing nations so that they can graduate from reliance on Bank resources and meet their financial needs, on terms they can afford directly from conventional sources of capital.

The range of the Bank's activities is far broader than its lending operations. Since the Bank's lending decisions depend heavily on the economic condition of the borrowing country, the Bank carefully studies its economy and the needs of the sectors for which lending is contemplated. These analyses help in formulating an appropriate long-term development assistance strategy for the economy.

Graduation from the IBRD and IDA has occurred for many years. Of the 34 very poor countries that borrowed money from IDA during the earliest years, more than two dozen have made enough progress for them no longer to need IDA money, leaving that money available to other countries that joined the Bank more recently. Similarly, about 20 countries that formerly borrowed money from the IBRD no longer have to do so. An outstanding example is Japan. For a period of 14 years, it borrowed from the IBRD. Now, the IBRD borrows large sums in Japan.

IMF Operations

The IMF has gone through two distinct phases in its 50-year history. During the first phase, ending in 1973, the IMF oversaw the adoption of general convertibility among the major currencies, supervised a system of fixed exchange rates tied to the value of gold, and provided short-term financing to countries in need of a quick infusion of foreign exchange to keep their currencies at par value or to adjust to changing economic circumstances.

Difficulties encountered in maintaining a system of fixed exchange rates gave rise to unstable monetary and financial conditions throughout the world and led the international community to reconsider how the IMF could most effectively function in a regime of flexible exchange rates. After five years of analysis and negotiation (1973-78), the IMF's second phase began with the amendment of its constitution in 1978, broadening its functions to enable it to grapple with the challenges that have arisen since the collapse of the par value system. These functions are three.

First, the IMF continues to urge its members to allow their national currencies to be exchanged without restriction for the currencies of other member countries. As of May 1996, 115 members had agreed to full convertibility of their national currencies. Second, in place of monitoring members' compliance with their obligations in a fixed exchange system, the IMF supervises economic policies that influence their balance of payments in the presently legalized flexible exchange rate environment. This supervision provides opportunities for an early warning of any exchange rate or balance of payments problem. In this, the IMF's role is principally advisory. It confers at regular intervals (usually once a year) with its members, analyzing their economic positions and apprising them of actual or potential problems arising from their policies, and keeps the entire membership informed of these developments.

Third, the IMF continues to provide short- and medium-term financial assistance to member nations that run into temporary balance of payments difficulties. The financial assistance usually involves the provision by the IMF of convertible currencies to augment the afflicted member's dwindling foreign exchange reserves, but only in return for the government's promise to reform the economic policies that caused the balance of payments problem in the first place. The IMF sees its financial role in these cases not as subsidizing further deficits but as easing a country's painful transition to living within its means.

How in practice does the IMF assist its members? The key opening the door to IMF assistance is the member's balance of payments, the tally of its payments and receipts with other nations. Foreign payments should be in rough balance: a country ideally should take in just about what it pays out. When financial problems cause the price of a member's currency and the price of its goods to fall out of line, balance of payments difficulties are sure to follow. If this happens, the member country may, by virtue of the Articles of Agreement, apply to the IMF for assistance.

To illustrate, let us take the example of a small country whose economy is based on agriculture. For convenience in trade, the government of such a country generally pegs the domestic currency to a convertible currency: so many units of domestic money to a U.S. dollar or French franc. Unless the exchange rate is adjusted from time to time to take account of changes in relative prices, the domestic currency will tend to become overvalued, with an exchange rate, say, of one unit of domestic currency to one U.S. dollar, when relative prices might suggest that two units to one dollar is more realistic. Governments, however, often succumb to the temptation to tolerate overvaluation, because an overvalued currency makes imports cheaper than they would be if the currency were correctly priced.

The other side of the coin, unfortunately, is that overvaluation makes the country's exports more expensive and hence less attractive to foreign buyers. If the currency is thus overvalued, the country will eventually experience a fall-off in export earnings (exports are too expensive) and a rise in import expenditures (imports are apparently cheap and are bought on credit). In effect, the country is earning less, spending more, and going into debt, a predicament as unsustainable for a country as it is for any of us. Moreover, this situation is usually attended by a host of other economic ills for the country. Finding a diminished market for their export crops and receiving low prices from the government marketing board for produce consumed domestically, farmers either resort to illegal black market exports or lose the incentive to produce. Many of them abandon the farm to seek employment in overcrowded cities, where they become part of larger social and economic problems. Declining domestic agricultural productivity forces the government to use scarce foreign exchange reserves (scarce because export earnings are down) to buy food from abroad. The balance of payments becomes dangerously distorted.

As an IMF member, a country finding itself in this bind can turn to the IMF for consultative and financial assistance. In a collaborative effort, the country and the IMF can attempt to root out the causes of the payments imbalance by working out a comprehensive program that, depending on the particulars of the case, might include raising producer prices paid to farmers so as to encourage agricultural production and reverse migration to the cities, lowering interest rates to expand the supply of credit, and adjusting the currency to reflect the level of world prices, thereby discouraging imports and raising the competitiveness of exports.

Because reorganizing the economy to implement these reforms is disruptive and not without cost, the IMF will lend money to subsidize policy reforms during the period of transition. To ensure that this money is put to the most productive uses, the IMF closely monitors the country's economic progress during this time, providing technical assistance and further consultative services as needed.

In addition to assisting its members in this way, the IMF also helps by providing technical assistance in organizing central banks, establishing and reforming tax systems, and setting up agencies to gather and publish economic statistics. The IMF is also authorized to issue a special type of money, called the SDR, to provide its members with additional liquidity. Known technically as a fiduciary asset, the SDR can be retained by members as part of their monetary reserves or be used in place of national currencies in transactions with other members. To date the IMF has issued slightly over 21.4 billion SDRs, presently valued at about U.S. $30 billion.

Over the past few years, in response to an emerging interest by the world community to return to a more stable system of exchange rates that would reduce the present fluctuations in the values of currencies, the IMF has been strengthening its supervision of members' economic policies. Provisions exist in its Articles of Agreement that would allow the IMF to adopt a more active role, should the world community decide on stricter management of flexible exchange rates or even on a return to some system of stable exchange rates.

Measuring the success of the IMF's operations over the years is not easy, for much of the IMF's work consists in averting financial crises or in preventing their becoming worse. Most observers feel that merely to have contained the debt crisis of the 1980s, which posed the risk of collapse in the world's financial system, must be counted a success for the IMF. The Fund has also gained some recognition for assisting in setting up market-based economies in the countries of the former Soviet Union and for responding swiftly to the Mexican peso crisis in 1994, but its main contribution lies in its unobrusive, day-to-day encouragement of confidence in the international system. Nowhere will you find a bridge or a hospital built by the IMF, but the next time you buy a Japanese camera or drive a foreign car, or without difficulty exchange dollars or pounds for another currency while on holiday, you will be benefiting from the vast increase in foreign trade over the past 50 years and the widespread currency convertibility that would have been unimaginable without the world monetary system that the IMF was created to maintain.

Cooperation between Bank and IMF

Although the Bank and IMF are distinct entities, they work together in close cooperation. This cooperation, present since their founding, has become more pronounced since the 1970s. Since then the Bank's activities have increasingly reflected the realization that the pace of economic and social development accelerates only when sound underlying financial and economic policies are in place. The IMF has also recognized that unsound financial and economic policies are often deeply rooted in long-term inefficient use of resources that resists eradication through short-term adaptations of financial policies. It does little good for the Bank to develop a long-term irrigation project to assist, say, the export of cotton, if the country's balance of payments position is so chaotic that no foreign buyers will deal with the country. On the other hand, it does little good for the IMF to help establish a sound exchange rate for a country's currency, unless the production of cotton for export will suffice to sustain that exchange rate over the medium to long term. The key to solving these problems is seen in restructuring economic sectors so that the economic potential of projects might be realized throughout the economy and the stability of the economy might enhance the effectiveness of the individual project.

Around 75 percent of the Bank's lending is applied to specific projects dealing with roads, dams, power stations, agriculture, and industry. As the global economy became mired in recession in the early 1980s, the Bank expanded the scope of its lending operations to include structural- and sector-adjustment loans. These help developing countries adjust their economic policies and structures in the face of serious balance of payments problems that threaten continued development. The main objective of structural-adjustment lending is to restructure a developing country's economy as the best basis for sustained economic growth. Loans support programs that are intended to anticipate and avert economic crises through economic reforms and changes in investment priorities. By using so-called policy-based lending, the Bank stimulates economic growth in heavily indebted countries--particularly in Latin America and in sub-Saharan Africa--that are undertaking, often at much social pain, far-reaching programs of economic adjustment.

In addition to its traditional function as provider of short-term balance of payments assistance, the advent of the oil crisis in the mid-1970s and the debt crisis in the early 1980s induced the IMF, too, to rethink its policy of restricting its financial assistance to short-term lending. As balance of payments shortfalls grew larger and longer-term structural reforms in members' economies were called for to eliminate these shortfalls, the IMF enlarged the amount of financial assistance it provides and lengthened the period within which its financial assistance would be available. In doing so, the IMF implicitly recognizes that balance of payments problems arise not only from a temporary lack of liquidity and inadequate financial and budgetary policies but also from long-standing contradictions in the structure of members' economies, requiring reforms stretching over a number of years and suggesting closer collaboration with the World Bank, which commands both the expertise and experience to deal with protracted structural impediments to growth.

Focusing on structural reform in recent years has resulted in considerable convergence in the efforts of the Bank and IMF and has led them to greater reliance on each other's special expertise. This convergence has been hastened by the debt crisis, brought on by the inability of developing countries to repay the enormous loans they contracted during the late 1970s and early 1980s. The debt crisis has emphasized that economic growth can be sustained only when resources are being used efficiently and that resources can be used efficiently only in a stable monetary and financial environment.

The bedrock of cooperation between the Bank and IMF is the regular and frequent interaction of economists and loan officers who work on the same country. The Bank staff brings to this interchange a longer-term view of the slow process of development and a profound knowledge of the structural requirements and economic potential of a country. The IMF staff contributes its own perspective on the day-to-day capability of a country to sustain its flow of payments to creditors and to attract from them investment finance, as well as on how the country is integrated within the world economy. This interchange of information is backed up by a coordination of financial assistance to members. For instance, the Bank has been approving structural- or sector-adjustment loans for most of the countries that are taking advantage of financial assistance from the IMF.

In addition, both institutions encourage other lenders, both private and official, to join with them in co-financing projects and in mobilizing credits to countries that are in need. Cooperation between the Bretton Woods Institutions has two results: the identification of programs that will encourage growth in a stable economic environment and the coordination of financing that will ensure the success of these programs. Other lenders, particularly commercial banks, frequently make credits available only after seeing satisfactory performance by the borrowing country of its program of structural adjustment.

Cooperation between the Bank and the IMF has over the past decade been formalized with the establishment in the IMF of procedures to provide financing at below market rates to its poorest member countries. These procedures enable the IMF to make available up to $12 billion to those 70 or so poor member countries that adjust the structure of their economies to improve their balance of payment position and to foster growth.

The Bank joins with the IMF in providing additional money for these countries from IDA. But what IDA can provide in financial resources is only a fraction of the world's minimum needs for concessional external finance. Happily, various governments and international agencies have responded positively to the Bank's special action program for low-income, debt-distressed countries of the region by pledging an extra $7 billion for cofinancing programs arranged by the Bank.

The Bank and the IMF have distinct mandates that allow them to contribute, each in its own way, to the stability of the international monetary and financial system and to the fostering of balanced economic growth throughout the entire membership. Since their founding 50 years ago, both institutions have been challenged by changing economic circumstances to develop new ways of assisting their membership. The Bank has expanded its assistance from an orientation toward projects to the broader aspects of economic reform. Simultaneously the IMF has gone beyond concern with simple balance of payment adjustment to interest itself in the structural reform of its members' economies. Some overlapping by both institutions has inevitably occurred, making cooperation between the Bank and the IMF crucial. Devising programs that will integrate members' economies more fully into the international monetary and financial system and at the same time encourage economic expansion continues to challenge the expertise of both Bretton Woods Institutions.

The International Monetary Fund and the World Bank at a Glance	
International Monetary Fund	**World Bank**
• oversees the international monetary system • promotes exchange stability and orderly exchange relations among its member countries • assists all members--both industrial and developing countries--that find themselves in temporary balance of payments difficulties by providing short- to medium-term credits • supplements the currency reserves of its members through the allocation of SDRs (special drawing rights); to date SDR 21.4 billion has been issued to member countries in proportion to their quotas • draws its financial resources principally from the quota subscriptions of its member countries • has at its disposal fully paid-in quotas now totaling SDR 145 billion (about $215 billion) • has a staff of 2,300 drawn from 182 member countries	• seeks to promote the economic development of the world's poorer countries • assists developing countries through long-term financing of development projects and programs • provides to the poorest developing countries whose per capita GNP is less than $865 a year special financial assistance through the International Development Association (IDA) • encourages private enterprises in developing countries through its affiliate, the International Finance Corporation (IFC) • acquires most of its financial resources by borrowing on the international bond market • has an authorized capital of $184 billion, of which members pay in about 10 percent • has a staff of 7,000 drawn from 180 member countries

United Nations Conference on Trade and Development

The headquarters of the United Nations Conference on Trade and Development are located in the Palace of Nations (United Nations Office at Geneva, Switzerland).The United Nations Conference on Trade and Development (UNCTAD) (French Conference des Nations unies sur le Commerce et le Development (CNUCED)) was established in 1964 as a permanent intergovernmental body.

UNCTAD is the principal organ of the United Nations General Assembly dealing with trade, investment, and development issues. The organization's goals are to: "maximize the trade, investment and development opportunities of developing countries and assist them in their efforts to integrate into the world economy on an equitable basis."

The primary objective of UNCTAD is to formulate policies relating to all aspects of development including trade, aid, transport, finance and technology. The conference ordinarily meets once in four years; the permanent secretariat is in Geneva.

One of the principal achievements of UNCTAD has been to conceive and implement the Generalised System of Preferences (GSP). It was argued in UNCTAD that to promote exports of manufactured goods from developing countries, it would be necessary to offer special tariff concessions to such exports. Accepting this argument, the developed countries formulated the GSP scheme under which manufacturers' exports and some agricultural goods from the developing countries enter duty-free or at reduced rates in the developed countries. Since imports of such items from other developed countries are subject to the normal rates of duties, imports of the same items from developing countries would enjoy a competitive advantage.

The creation of UNCTAD in 1964 was based on concerns of developing countries over the international market, multi-national corporations, and great disparity between developed nations and developing nations. The United Nations Conference on Trade and Development was established to provide a forum where the developing countries could discuss the problems relating to their economic development. The organisation grew from the view that existing institutions like GATT (now replaced by the World Trade Organization, WTO), the International Monetary Fund (IMF), and World Bank were not properly organized to handle the particular problems of developing countries. Later, in the 1970s and 1980s, UNCTAD was closely associated with the idea of a New International Economic Order (NIEO).

The first UNCTAD conference took place in Geneva in 1964, the second in New Delhi in 1968, the third in Santiago in 1972, fourth in Nairobi in 1976, the fifth in Manila in 1979, the sixth in Belgrade in 1983, the seventh in Geneva in 1987, the eighth in Cartagena in 1992, the ninth at Johannesburg (South Africa) in 1996, the tenth in Bangkok (Thailand) in 2000, the eleventh in São Paulo (Brazil) in 2004, the twelfth in Accra in 2008 and the thirteenth in Doha (Qatar) in 2012.

Currently, UNCTAD has 194 member states and is headquartered in Geneva, Switzerland. UNCTAD has 400 staff members and a bi-annual (2010–2011) regular budget of $138 million in core expenditures and $72 million in extra-budgetary technical assistance funds. It is a member of the United Nations Development Group. There are non-governmental organizations participating in the activities of UNCTAD.

Membership

- UNCTAD Members
- UNCTAD Members at the Trade and Development Board
- Members, List A
- Members, List B

- Members, List C
- Members, List D

Members, to be assigned as of October 2012, 194 states are UNCTAD members: all UN members and the Holy See. UNCTAD members are divided into four lists, the division being based on United Nations Regional Groups with six members unassigned: Armenia, Kiribati, Nauru, South Sudan, Tajikistan, Tuvalu. List A consists mostly of countries in the African and Asia-Pacific Groups of the UN. List B consists of countries of the Western European and Others Group. List C consists of countries of the Group of Latin American and Caribbean States (GRULAC). List D consists of countries of the Eastern European Group.

The lists, originally defined in 19th General Assembly resolution 1995 serve to balance geographical distribution of member states' representation on the Trade Development Board and other UNCTAD structures. The lists are similar to those of UNIDO, an UN specialized agency. The full lists are as follows:

List A (100 members): Afghanistan, Algeria, Angola, Bahrain, Bangladesh, Benin, Bhutan, Bosnia and Herzegovina, Botswana, Brunei Darussalam, Burkina Faso, Burundi, Cambodia, Cameroon, Cape Verde, Central African Republic, Chad, China, Comoros, Côte d'Ivoire, Republic of Congo, Democratic Republic of Congo, Djibouti, Egypt, Equatorial Guinea, Eritrea, Ethiopia, Fiji, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, India, Indonesia, Iran, Iraq, Israel, Jordan, Kenya, Kuwait, Laos, Lebanon, Lesotho, Liberia, Libya, Madagascar, Malawi , Malaysia, Maldives, Mali, Marshall Islands, Mauritania, Mauritius, Micronesia, Mongolia, Morocco, Mozambique, Myanmar, Namibia, Nepal, Niger, Nigeria, North Korea, Oman, Pakistan, Palau, Papua New Guinea, Philippines, Qatar, South Korea, Rwanda, Samoa, Sao Tome and Principe, Saudi Arabia, Senegal, Seychelles, Sierra Leone, Singapore, Solomon Islands, Somalia, South Africa, Sri Lanka, Sudan, Swaziland, Syria, Thailand, Timor-Leste, Togo, Tonga, Tunisia, Turkmenistan, Uganda, United Arab Emirates, Tanzania, Vanuatu, Viet Nam, Yemen, Zambia, Zimbabwe.

List B (31 members): Andorra, Australia, Austria, Belgium, Canada, Cyprus, Denmark, Finland, France, Germany, Greece, Holy See, Iceland, Ireland, Italy, Japan, Liechtenstein, Luxembourg, Malta, Monaco, Netherlands, New Zealand, Norway, Portugal, San Marino, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.

List C (33 members): Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay, Venezuela.

List D (24 members): Albania, Azerbaijan, Belarus, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Montenegro, Poland, Moldova, Romania, Russia, Serbia, Slovakia, Slovenia, Macedonia, Ukraine, Uzbekistan.

Not assigned countries (6 members): Armenia, Kiribati, Nauru, South Sudan, Tajikistan, Tuvalu. Other states that do not participate are Cook Islands, Niue and the states with limited recognition.

Meetings

The inter-governmental work is done at five levels of meetings:

- The UNCTAD Conference – held every four years:
- UNCTAD VIII in Cartagena, Colombia on 8–25 February 1992
- UNCTAD IX in Midrand, South Africa on 27 April – 11 May 1996
- UNCTAD X in Bangkok, Thailand on 12–19 February 2000
- UNCTAD XI in São Paulo, Brazil on 13–18 June 2004
- UNCTAD XII in Accra, Ghana on 21–25 April 2008
- UNCTAD XIII in Doha, Qatar on 21–26 April 2012

The UNCTAD Trade and Development Board – the Board manages the work of UNCTAD between two conferences and meets up to three times every year;

Four UNCTAD Commissions and one Working Party – these meet more often than the Board to take up policy, programme and budgetary issues;

Expert Meetings – the commissions will convene expert meetings on selected topics to provide substantive and expert input for Commission policy discussions.

Reports

UNCTAD produces a number of topical reports, including:

- The Trade and Development Report
- The Trade and Environment Review
- The World Investment Report
- The Economic Development in Africa Report
- The Least Developed Countries Report
- UNCTAD Statistics
- The Information Economy Report
- The Review of Maritime Transport
- The International Accounting and Reporting Issues Annual Review
- The Technology and Innovation Report

World Trade Organization (WTO)

The World Trade Organization (WTO) is an organization that intends to supervise and liberalize international trade. The organization officially commenced on 1 January 1995 under the Marrakech Agreement, signed by 123 nations on 15 April 1994, replacing the General Agreement on Tariffs and Trade (GATT), which commenced in 1948. The organization deals with regulation of trade between participating countries by providing a framework for negotiating and formalizing trade agreements and a dispute resolution process aimed at enforcing participants' adherence to WTO agreements, which are signed by representatives of member governments:fol.9–10 and ratified by their parliaments. Most of the issues that the WTO focuses on derive from previous trade negotiations, especially from the Uruguay Round (1986–1994).

The organization is attempting to complete negotiations on the Doha Development Round, which was launched in 2001 with an explicit focus on addressing the needs of developing countries. As of June 2012, the future of the Doha Round remained uncertain: the work programme lists 21 subjects in which the original deadline of 1 January 2005 was missed, and the round is still incomplete. The conflict between free trade on industrial goods and services but retention of protectionism on farm subsidies to domestic agricultural sector (requested by developed countries) and the substantiation of the international liberalization of fair trade on agricultural products (requested by developing countries) remain the major obstacles. These points of contention have hindered any progress to launch new WTO negotiations beyond the Doha Development Round. As a result of this impasse, there have been an increasing number of bilateral free trade agreements signed. As of July 2012, there were various negotiation groups in the WTO system for the current agricultural trade negotiation which is in the condition of stalemate.

WTO's current Director-General is Roberto Azevêdo, who leads a staff of over 600 people in Geneva, Switzerland. A trade facilitation agreement known as the Bali Package was reached by all members on 7 December 2013, the first comprehensive agreement in the organization's history

History

The economists Harry White (left) and John Maynard Keynes at the Bretton Woods Conference. Both had been strong advocates of a central-controlled international trade environment and recommended the establishment of three institutions: the IMF (for fiscal and monetary issues);

- The World Bank (for financial and structural issues);
- The ITO (for international economic cooperation)

The WTO's predecessor, the General Agreement on Tariffs and Trade (GATT), was established after World War II in the wake of other new multilateral institutions dedicated to international economic cooperation – notably the Bretton Woods institutions known as the World Bank and the International Monetary Fund. A comparable international institution for trade, named the International Trade Organization was successfully negotiated. The ITO was to be a United Nations specialized agency and would address not only trade barriers but other issues indirectly related to trade, including employment, investment, restrictive business practices, and commodity agreements. But the ITO treaty was not approved by the U.S. and a few other signatories and never went into effect.

In the absence of an international organization for trade, the GATT would over the years "transform itself" into a de facto international organization.

GATT rounds of negotiations

General Agreement on Tariffs and Trade

The GATT was the only multilateral instrument governing international trade from 1946 until the WTO was established on 1 January 1995. Despite attempts in the mid-1950s and 1960s to create some form of institutional mechanism for international trade, the GATT continued to operate for almost half a century as a semi-institutionalized multilateral treaty regime on a provisional basis.

From Geneva to Tokyo:

Seven rounds of negotiations occurred under GATT. The first real GATT trade rounds concentrated on further reducing tariffs. Then, the Kennedy Round in the mid-sixties brought about a GATT anti-dumping Agreement and a section on development. The Tokyo Round during the seventies was the first major attempt to tackle trade barriers that do not take the form of tariffs, and to improve the system, adopting a series of agreements on non-tariff barriers, which in some cases interpreted existing GATT rules, and in others broke entirely new ground. Because these plurilateral agreements were not accepted by the full GATT membership, they were often informally called "codes". Several of these codes were amended in the Uruguay Round, and turned into multilateral commitments accepted by all WTO members. Only four remained plurilateral (those on government procurement, bovine meat, civil aircraft and dairy products), but in 1997 WTO members agreed to terminate the bovine meat and dairy agreements, leaving only two.

It was the biggest negotiating mandate on trade ever agreed: the talks were going to extend the trading system into several new areas, notably trade in services and intellectual property, and to reform trade in the sensitive sectors of agriculture and textiles; all the original GATT articles were up for review. The Final Act concluding the Uruguay Round and officially establishing the WTO regime was signed 15 April 1994, during the ministerial meeting at Marrakesh, Morocco, and hence is known as the Marrakesh Agreement.

The GATT still exists as the WTO's umbrella treaty for trade in goods, updated as a result of the Uruguay Round negotiations (a distinction is made between GATT 1994, the updated parts of GATT, and GATT 1947, the original agreement which is still the heart of GATT 1994). GATT 1994 is not however the only legally binding agreement included via the Final Act at Marrakesh; a long list of about 60 agreements, annexes, decisions and understandings was adopted. The agreements fall into a structure with six main parts:

The Agreement Establishing the WTO

- Goods and investment – the Multilateral Agreements on Trade in Goods including the GATT 1994 and the Trade Related Investment Measures (TRIMS)
- Services — the General Agreement on Trade in Services
- Intellectual property – the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)
- Dispute settlement (DSU)

Reviews of governments' trade policies (TPRM)

In terms of the WTO's principle relating to tariff "ceiling-binding" (No. 3), the Uruguay Round has been successful in increasing binding commitments by both developed and developing countries, as may be seen in the percentages of tariffs bound before and after the 1986–1994 talks.

Ministerial conferences

The World Trade Organization Ministerial Conference of 1998, in the Palace of Nations (Geneva, Switzerland).The highest decision-making body of the WTO is the Ministerial Conference, which usually meets every two years. It brings together all members of the WTO, all of which are countries or customs unions. The Ministerial Conference can take decisions on all matters under any of the multilateral trade agreements. The inaugural ministerial conference was held in Singapore in 1996. Disagreements between largely developed and developing economies emerged during this conference over four issues initiated by this conference, which led to them being collectively referred to as the "Singapore issues". The second ministerial conference was held in Geneva in Switzerland. The third conference in Seattle, Washington ended in failure, with massive demonstrations and police and National Guard crowd-control efforts drawing worldwide attention. The fourth ministerial conference was held in Doha in the Persian Gulf nation of Qatar. The Doha Development Round was launched at the conference. The conference also approved the joining of China, which became the 143rd member to join. The fifth ministerial conference was held in Cancún, Mexico, aiming at forging agreement on the Doha round. An alliance of 22 southern states, the G20 developing nations (led by India, China,[30] Brazil, ASEAN led by the Philippines), resisted demands from the North for agreements on the so-called "Singapore issues" and called for an end to agricultural subsidies within the EU and the US. The talks broke down without progress.

The sixth WTO ministerial conference was held in Hong Kong from 13–18 December 2005. It was considered vital if the four-year-old Doha Development Round negotiations were to move forward sufficiently to conclude the round in 2006. In this meeting, countries agreed to phase out all their agricultural export subsidies by the end of 2013, and terminate any cotton export subsidies by the end of 2006. Further concessions to developing countries included an agreement to introduce duty-free, tariff-free access for goods from the Least Developed Countries, following the Everything but Arms initiative of the European Union — but with up to 3% of tariff lines exempted. Other major issues were left for further negotiation to be completed by the end of 2010. The WTO General Council, on 26 May 2009, agreed to hold a seventh WTO ministerial conference session in Geneva from 30 November-3 December 2009. A statement by chairman Amb. Mario Matus acknowledged that the prime purpose was to remedy a breach of protocol requiring two-yearly "regular" meetings, which had lapsed with the Doha Round failure in 2005, and that the "scaled-down" meeting would not be a negotiating session, but "emphasis will be on transparency and open discussion rather than on small group processes and informal negotiating structures". The general theme for discussion was "The WTO, the Multilateral Trading System and the Current Global Economic Environment"

Functions

Among the various functions of the WTO, these are regarded by analysts as the most important:

- It oversees the implementation, administration and operation of the covered agreements.
- It provides a forum for negotiations and for settling disputes.
- Additionally, it is the WTO's duty to review and propagate the national trade policies, and to ensure the coherence and transparency of trade policies through surveillance in global economic policy-making. Another priority of the WTO is the assistance of developing, least-developed and low-income countries in transition to adjust to WTO rules and disciplines through technical cooperation and training.

i. The WTO shall facilitate the implementation, administration and operation and further the objectives of this Agreement and of the Multilateral Trade Agreements, and shall also provide the frame work for the implementation, administration and operation of the multilateral Trade Agreements.

ii. The WTO shall provide the forum for negotiations among its members concerning their multilateral trade relations in matters dealt with under the Agreement in the Annexes to this Agreement.

iii. The WTO shall administer the Understanding on Rules and Procedures Governing the Settlement of Disputes.

iv. The WTO shall administer Trade Policy Review Mechanism.

v. With a view to achieving greater coherence in global economic policy making, the WTO shall cooperate, as appropriate, with the international Monetary Fund (IMF) and with the International Bank for Reconstruction and Development (IBRD) and its affiliated agencies.

The above five listings are the additional functions of the World Trade Organization. As globalization proceeds in today's society, the necessity of an International Organization to manage the trading systems has been of vital importance. As the trade volume increases, issues such as protectionism, trade barriers, subsidies, violation of intellectual property arise due to the differences in the trading rules of every nation. The World Trade Organization serves as the mediator between the nations when such problems arise. WTO could be referred to as the product of globalization and also as one of the most important organizations in today's globalized society.

The WTO is also a center of economic research and analysis: regular assessments of the global trade picture in its annual publications and research reports on specific topics are produced by the organization. Finally, the WTO cooperates closely with the two other components of the Bretton Woods system, the IMF and the World Bank.

Principles of the trading system

The WTO establishes a framework for trade policies; it does not define or specify outcomes. That is, it is concerned with setting the rules of the trade policy games.[45] Five principles are of particular importance in understanding both the pre-1994 GATT and the WTO:

Non-discrimination

It has two major components: the most favoured nation (MFN) rule, and the national treatment policy. Both are embedded in the main WTO rules on goods, services, and intellectual property, but their precise scope and nature differ across these areas. The MFN rule requires that a WTO member must apply the same conditions on all trade with other WTO members, i.e. a WTO member has to grant the most favorable conditions under which it allows trade in a certain product type to all other WTO members. "Grant someone a special favour and you have to do the same for all other WTO members." National treatment means that imported goods should be treated no less favorably than domestically produced goods (at least after the foreign goods have entered the market) and was introduced to tackle non-tariff barriers to trade (e.g. technical standards, security standards et al. discriminating against imported goods).

Reciprocity

It reflects both a desire to limit the scope of free-riding that may arise because of the MFN rule, and a desire to obtain better access to foreign markets. A related point is that for a nation to negotiate, it is necessary that the gain from doing so be greater than the gain available from unilateral liberalization; reciprocal concessions intend to ensure that such gains will materialise.

Binding and enforceable commitments

The tariff commitments made by WTO members in a multilateral trade negotiation and on accession are enumerated in a schedule (list) of concessions. These schedules establish "ceiling bindings": a country can change its bindings, but only after negotiating with its trading partners, which could mean compensating them for loss of trade. If satisfaction is not obtained, the complaining country may invoke the WTO dispute settlement procedures.

Transparency

The WTO members are required to publish their trade regulations, to maintain institutions allowing for the review of administrative decisions affecting trade, to respond to requests for information by other members, and to notify changes in trade policies to the WTO. These internal transparency requirements are supplemented and facilitated by periodic country-specific reports (trade policy reviews) through the Trade Policy Review

Mechanism (TPRM). The WTO system tries also to improve predictability and stability, discouraging the use of quotas and other measures used to set limits on quantities of imports.

Safety valves

In specific circumstances, governments are able to restrict trade. The WTO's agreements permit members to take measures to protect not only the environment but also public health, animal health and plant health.

There are three types of provision in this direction:

- Articles allowing for the use of trade measures to attain non-economic objectives;
- Articles aimed at ensuring "fair competition"; members must not use environmental protection measures as a means of disguising protectionist policies.
- Provisions permitting intervention in trade for economic reasons
- Exceptions to the MFN principle also allow for preferential treatment of developing countries, regional free trade areas and customs unions.

Organizational structure

The General Council has the following subsidiary bodies which oversee committees in different areas:

Council for Trade in Goods

There are 11 committees under the jurisdiction of the Goods Council each with a specific task. All members of the WTO participate in the committees. The Textiles Monitoring Body is separate from the other committees but still under the jurisdiction of Goods Council. The body has its own chairman and only 10 members. The body also has several groups relating to textiles.

Council for Trade-Related Aspects of Intellectual Property Rights

Information on intellectual property in the WTO, news and official records of the activities of the TRIPS Council, and details of the WTO's work with other international organizations in the field.

Council for Trade in Services

The Council for Trade in Services operates under the guidance of the General Council and is responsible for overseeing the functioning of the General Agreement on Trade in Services (GATS). It is open to all WTO members, and can create subsidiary bodies as required.

Trade Negotiations Committee

The Trade Negotiations Committee (TNC) is the committee that deals with the current trade talks round. The chair is WTO's director-general. As of June 2012 the committee was tasked with the Doha Development Round. The Service Council has three subsidiary bodies: financial services, domestic regulations, GATS rules and specific commitments. The council has several different committees, working groups, and working parties.

There are committees on the following: Trade and Environment; Trade and Development (Subcommittee on Least-Developed Countries); Regional Trade Agreements; Balance of Payments Restrictions; and Budget, Finance and Administration. There are working parties on the following: Accession. There are working groups on the following: Trade, debt and finance; and Trade and technology transfer.

Decision-making

The WTO describes itself as "a rules-based, member-driven organization — all decisions are made by the member governments, and the rules are the outcome of negotiations among members". The WTO Agreement foresees votes where consensus cannot be reached, but the practice of consensus dominates the process of decision-making.

Richard Harold Steinberg (2002) argues that although the WTO's consensus governance model provides law-based initial bargaining, trading rounds close through power-based bargaining favouring Europe and the U.S., and may not lead to Pareto improvement.**Dispute settlement and Dispute settlement in the WTO**

In 1994, the WTO members agreed on the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU) annexed to the "Final Act" signed in Marrakesh in 1994. Dispute settlement is regarded by the WTO as the central pillar of the multilateral trading system, and as a "unique contribution to the stability of the global economy". WTO members have agreed that, if they believe fellow-members are violating trade rules, they will use the multilateral system of settling disputes instead of taking action unilaterally.

The operation of the WTO dispute settlement process involves the DSB panels, the Appellate Body, the WTO Secretariat, arbitrators, independent experts and several specialized institutions. Bodies involved in the dispute settlement process, World Trade Organization.

Accession and membership ANS World Trade Organization accession and membership

The process of becoming a WTO member is unique to each applicant country, and the terms of accession are dependent upon the country's stage of economic development and current trade regime. The process takes about five years, on average, but it can last more if the country is less than fully committed to the process or if political issues interfere. The shortest accession negotiation was that of the Kyrgyz Republic, while the longest was that of Russia, which, having first applied to join GATT in 1993, was approved for membership in December 2011 and became a WTO member on 22 August 2012.

The second longest was that of Vanuatu, whose Working Party on the Accession of Vanuatu was established on 11 July 1995. After a final meeting of the Working Party in October 2001, Vanuatu requested more time to consider its accession terms. In 2008, it indicated its interest to resume and conclude its WTO accession. The Working Party on the Accession of Vanuatu was reconvened informally on 4 April 2011 to discuss Vanuatu's future WTO membership. The re-convened Working Party completed its mandate on 2 May 2011. The General Council formally approved the Accession Package of Vanuatu on 26 October 2011. On 24 August 2012, the WTO welcomed Vanuatu as its 157th member. An offer of accession is only given once consensus is reached among interested parties.

GATT and the World Trade Organization

In 1993, the GATT was updated (GATT 1994) to include new obligations upon its signatories. One of the most significant changes was the creation of the World Trade Organization (WTO). The 75 existing GATT members and the European Communities became the founding members of the WTO on 1 January 1995. The other 52 GATT members rejoined the WTO in the following two years (the last being Congo in 1997). Since the founding of the WTO, 21 new non-GATT members have joined and 29 are currently negotiating membership. There are a total of 159 member countries in the WTO, with Laos and Tajikistan being new members as of 2013.

Of the original GATT members, Syria and the SFR Yugoslavia have not rejoined the WTO. Since FR Yugoslavia, (renamed as Serbia and Montenegro and with membership negotiations later split in two), is not recognised as a direct SFRY successor state; therefore, its application is considered a new (non-GATT) one. The General Council of WTO, on 4 May 2010, agreed to establish a working party to examine the request of Syria for WTO membership. The contracting parties who founded the WTO ended official agreement of the "GATT 1947" terms on 31 December 1995. Montenegro became a member in 2012, while Serbia is in the decision stage of the negotiations and is expected to become one of the newest members of the WTO in 2014 or in near future.

Whilst GATT was a set of rules agreed upon by nations, the WTO is an institutional body. The WTO expanded its scope from traded goods to include trade within the service sector and intellectual property rights. Although it was designed to serve multilateral agreements, during several rounds of GATT negotiations (particularly the Tokyo Round) plurilateral agreements created selective trading and caused fragmentation among members. WTO arrangements are generally a multilateral agreement settlement mechanism of GATT.

POSSIBLE QUESTION

UNIT – V

PART - B

1. List out the forms of payment of international business.
2. Define factoring
3. State any two source of trade finance.
4. Write short note on bill of lading
5. State any four forms of payment.

PART - C

1. Explain the various forms of payments in International Business.
2. Enumerate the various documents in international trade.
3. Enumerate the Institutional sources of trade finance.
4. What is countertrade? Explain its different types.
5. Explain the export financing instrument of International Business.
6. Describe the measures for promoting foreign investments.
7. Enumerate the sources of trade finance.
8. Explain the various modes of International Business.
9. Enumerate the Payment Terms in Export Trade.
10. Explain the terms of special economic zone.

KARPAGAM ACADEMY OF HIGHER EDUCATION
INTERNATIONAL BUSINESS
POSSIBLE QUESTIONS UNIT - V

Questions	Opt 1	Opt 2	Opt 3	Opt 4	Answer
Expand NAFTA	National Agreement for Free Trade Agreement.	North American Free Trade Agreement.	National Arrangement for Free Trade Agreement.	North American Free Tariff Agreement.	North American Free Trade Agreement.
As a part of W.T.O guidelines, Agreement on Agriculture doesnt consider ____________.	direct payments to farmers are permitted.	indirect assistance and support to farmers including R & D support by govt. are not permitted.	domestic policies which directly effect on production and trade have to be cut back.	least developed countries do not need to make any cuts.	indirect assistance and support to farmers including R & D support by govt. are not permitted.
The world trade organization was formed in the year ____________ with GATT as it basis.	1993	1994	1995	1996	1995
Which one of the following systems occurred first in the history of international banking?	Post Britton Woods.	European Monetary Union.	Gold Standard.	Gold Exchange Standard.	Post Britton Woods.
Which country comes under O.E.C.D countries?	Iran.	Iraq.	Japan.	Saudi Arabia.	Iraq.
A.S.E.A.N means ______________.	Association of South East Asian Nations.	Association of South East American Nations.	Association of South East Allocated Nations.	Association of South East African Nations.	Association of South East Asian Nations.

What does GATT mean?	General Agreement on Trade & Traffic.	General Agreement on Trade & Tariff.	General Agreement on Trade & Transport.	General Agreement on Tariff & Trade.	General Agreement on Trade & Tariff.
Which country is not under European Union?	Italy.	Portugal.	Spain.	Mexico.	Mexico.
What does SAARC mean?	Southeast Asian Association for Regional Conference.	South Asian Association for Regional Conference.	South African Association for Regional Conference.	South American Association for Regional Conference.	South Asian Association for Regional Conference.
Which country is not a member of SAARC?	Bangladesh.	India	Srilanka	Myanmar	Bangladesh.
GATT was set up on October 30th 1947 in _______________.	Oslo.	Alaska.	Geneva.	Atlanta.	Geneva.
GATT was formed in the year________________	1913	1947	1948	1973	1947
____________ is the global body dealing with trade between nations.	WTO.	WHO.	GATT.	FERA.	WTO.
______________ act was implemented to regulate foreign exchange and foreign securities dealings.	IEO.	SERA.	FERA.	GATT.	FERA.
IMF refers to ______________.	International Monetary Focus.	International Monetary Force.	International Monetary Fund.	Interdependent Monetary Force.	International Monetary Fund.
Sources of IMF come from _______________	Subscriptions	Borrowings	Subscriptions & Borrowings	General Reserves	Subscriptions & Borrowings
FIEO was set up in the year _____________.	1965	1966	1975	1985	1965
IIFT was established in the year ______________.	1964	1965	1966	1967	1964

Totally __________ rounds of negotiations took place under GATT.	6	7	8	9	8
Tourism as a service is classified under GATTs under mode ___________.	1	2	3	4	2
Expand TRIMs	Trade Related Investment Measures.	Trade Review Information Modules.	Tripartite Review of Investment Means.	Tariff Related Investment Measures.	Trade Related Investment Measures.
The GATT was transformed into WTO with effect from ___________.	April 1995.	March 1995.	January 1995.	February 1995.	January 1995.
The role of the IMF is _______________	It controls the budgets of national governments.	It acts as a forum for international economics.	It observes world exchange rates, balance of payments and multilateral payments.	It seeks to promote free international trade.	It observes world exchange rates, balance of payments and multilateral payments.
What is the IMFs primary objective?	The overall promotion of world trade.	The fixation of the value of world currencies.	The promotion of free trade.	The promotion of its policies in certain countries around the world.	The overall promotion of world trade.

How does the IMF meet its primary objective?	By promoting free international trade.	By overseeing the balance of payments, acting as a forum of world negotiation and regulating world exchange rates.	By acting as an arbitrator for the dispute settlement of world trade matters.	By aligning its primary objective with the monetary objectives of national governments	By overseeing the balance of payments, acting as a forum of world negotiation and regulating world exchange rates.
What are the forms of assistance that the World Bank provides to its members?	Technical and financial.	Political and financial.	Political and economic.	Technical and military.	Technical and financial.
The World Bank Group is made up of how many organizations?	3	5	8	10	5
Which organization of the World Bank Group deals with matters related to the development of the poorest countries in the world?	The International Bank for Reconstruction and Development.	The International Development Association.	The International Finance Corporation.	The Multilateral Investment Agency.	The International Development Association.

What is the underlying characteristic of the WTO?	It facilitates economic co-operation between different countries.	It resolves disputes between economic trade blocks.	It facilitates the developmen t of less developed countries.	It acts as an umbrella institution that regulates the agreements concluded at the Uruguay round, the organizations ultimate goal being the promotion of free international trade.	It acts as an umbrella institution that regulates the agreements concluded at the Uruguay round, the organizations ultimate goal being the promotion of free international trade.
Does the WTO come with its own institutional framework?	No, the WTO depends on the relevant frameworks of national governments.	No, the WTO provides certain institutional arrangement s but only on an ad hoc basis.	Yes, the WTO provides a certain institutional framework which changes depending on the nature of free trade agreements.	Yes, the WTO provides a common institutional framework for the implementatio n of free trade agreements.	Yes, the WTO provides a common institutional framework for the implementati on of free trade agreements.
Expand FTZ	Free Trade Zone.	Free Tariff Zone.	Free Tender Zone.	Foreign Trade Zone.	Free Trade Zone.

____________ refer to the rights given to people over the creation of their intellect.	Patent right.	Copy rights.	Intellectual Property Rights.	Trade Mark.	Intellectual Property Rights.
The main agreement of commodity agreements is to ___________.	increase prices.	decrease prices.	stabilize prices.	create competitivene ss.	stabilize prices.
The Bretton Woods Conference proposed the setting up of __________	IBRD	IMF	ITO	IBRD, IMF and ITO	IBRD, IMF and ITO
International Monetary Fund initially had ________ countries	25	27	29	30	29
Membership of _______ is a pre-requisite for membership in the world bank	Alliance	Fund	Negotiation	Technical assistance	Fund
One of the primary purposes of IMF to its members is to _________ the degree of disequilibrium in BOP.	Increase	Reduce	Maintain	Promote	Reduce
The _________ is the highest decision making body of the IMF.	Members Board	Board of Governors	Board of Directors	Steering Committee	Board of Governors
The IMF consists _________ Governor(s) from each Member country.	1	3	5	7	1
The ________ is responsible for conducting the business of IMF.	Board of Directors	Judicial Board	Trade Team	Executive Board	Executive Board
The SDR is an International Resource Asset created by ________	IBRD	IMF	ITO	WTO	IMF
The World Bank is also called as ________	IBRD	ITO	IMF	IDA	IBRD
The International Development Association (IDO) and the International Finance Corporation (IFC) are the two affiliates of _______________	WTO	IMF	ITO	World Bank	World Bank

Special Action Programme is a lending programme of __________	World Bank	WTO	ITO	EXIM Bank	World Bank
___________ became a member of the World Bank in 1980.	Japan	India	China	Pakistan	China
World Bank's aid to India since 1974 shows a/an ___________ trend	Decreasing	Increasing	Standard	Lessening	Increasing
International Development Association's (IDA) aid to India since 1974 shows a/an __________ trend.	Increasing	Decreasing	Standard	Rising	Decreasing
The new Economic Policy of India had the assistance of _________	IFC	WTO	World Bank	IDA	IFC
Asian Development Bank had been established to assist the _________ countries	Developed	Developing	Underdeveloped	Less Developed	Developing
The General disatisfaction of the developing countries with the __________ led to the formation of the United Nations Conference on Trade and Development (UNCTAD)	IMF	IBRD	GATT	TRIPS	GATT
Every Member of the IMF is required to subscribe to the fund an amount ____________	Triple	Equivalent	Lower	Double	Equivalent
An IMF Member is required to pay about _________ of its quota in SDRs.	25%	30%	50%	100%	25%
____________ of amount can be paid by the IMF Members in their own currencies.	25%	50%	75%	100%	75%
The General Agreements to Borrow (GAB) under IMF was created in ___________	1952	1962	1972	1982	1962

The New Agreements to Borrow (NAB) under IMF was created in ___________	1978	1988	1998	2008	1998
The Contingent Credit Lines (CCL), an IMF's special facility is expected to be in the range of _________ per cent of the quota	100-200	200-300	300-500	500-700	300-500
Structural Adjustment Lending (SAL) programme is a feature of _________	IMF	IBRD	ADB	GATT	IBRD
Funds used by International Development Association (IDA) mostly come through ______	Subscriptions	Loans	Borrowings	Transfers	Subscriptions
Poverty test, Performance test and Project test are the criteria for approving a/an ________ credit.	ITO	IMF	IDA	IFC	IDA
___________ was established to borrow savings from rich nations and lending them to poor nations.	World Bank	IMF	ITO	IFC	World Bank

Register No………..

[16CMU403A]

KARPAGAM ACADEMY OF HIGHER EDUCATION

(Deemed to be University Established Under Section 3 of UGC Act 1956)

COIMBATORE-21

FIRST INTERNAL EXAMINATION-JANUARY 2018

(For the candidate admitted 2016 onwards)

II. B.COM

Third Semester

INTERNATIONAL BUSINESS

Time: 2 Hours **Maximum: 50 marks**

PART-A (20*1=20 Marks)

Answer All the Questions

1. A business that deals with more than two nations is known as _________________

a.Modern Business b.Business c.Domestic trade d.International Business.

2. ____________ is the traditional mode of international business.

a. Importing. b. Exporting c. Franchising d. Licensing

3. Downloading goods or services from foreign countries for the purpose of manufacturing goods and services can be termed as ____________

a.importing. b.exporting. c.franchising. d.icensing.

4. A Company doing international business enters into contract with firms in foreign countries to manufacture or assemble the products or services is called as ___________

a.licensing. b.franchising. c.turnkey project. d.contract manufacturing.

5. Companies with long term substantial interest in the foreign market normally establish____________.

a. joint ventures. b. mergers. c. contract manufacturing. d. fully owned manufacturing facilities

6. Implementing manufacturing facilities in host country is called as ____________

a.mergers. b.contract manufacturing. c.management contract. d.fully owned manufacturing facilities.

Ownership and Management getting shared between a foreign firm and local firm is called as ______________. management contract. acquisition. merger. joint venture