

CUET · BUSINESS STUDIES · CLASS XI · CODE 305

International Business

CUET unit: International Business (Meaning, scope, benefits, modes of entry, export-import procedure and documentation)

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 **Snapshot**

- International business extends beyond domestic enterprise to cross-border trade and production.
- International business is broader than international trade — it includes services, foreign investment (FDI/portfolio), licensing, franchising, contract manufacturing, joint ventures and wholly owned subsidiaries.
- Domestic and international business differ on eight specific bases (nationality of parties, mobility of factors, customer heterogeneity, business practices, political risks, regulations, currency, etc.).
- The full procedure and documentation for export and import transactions is high-yield ground for CUET single-line factual MCQs (e.g., "What is a shipping bill?", "What is duty drawback?").
- CUET typically tests this topic through definition-recall MCQs on documents (letter of credit, bill of lading, mate's receipt, bill of entry) and conceptual MCQs on modes of entry.

 **Detailed Notes****2.1 Core concepts**

- International business refers to manufacturing and trade beyond the boundaries of one's own country; it covers cross-border movement of goods, services, capital, personnel, technology and intellectual property like patents, trademarks, know-how and copyrights (NCERT §11.1.1, p. 247-248).
- International business is much broader than international trade — besides exports and imports of goods, it includes service trade (tourism, banking, transportation, communication), foreign investments and overseas production of goods and services (NCERT §11.1.1, p. 248).
- The fundamental reason for international business is that countries cannot produce equally well or cheaply all that they need, because of unequal distribution of natural resources and differences in productivity, labour, capital and raw material availability; geographical specialisation drives cross-border trade (NCERT §11.1.2, p. 248-249).
- Domestic vs international business differs on eight bases: (i) nationality of buyers and sellers, (ii) nationality of other stakeholders, (iii) mobility of factors of production, (iv) customer heterogeneity, (v) differences in business systems and

- practices, (vi) political system and risks, (vii) business regulations and policies (tariffs, quotas, taxes), and (viii) currency used (exchange-rate risk) (NCERT §11.1.3 and Table 11.1, p. 249-253).
- Scope of international business has four major forms: merchandise (tangible goods) exports/imports, service (invisible) exports/imports, licensing and franchising, and foreign investment (direct = FDI; portfolio = shares/bonds without control) (NCERT §11.1.4, p. 252-255).
 - A wholly owned subsidiary is created by 100 per cent equity investment by the parent firm, giving it full control over the foreign company (NCERT §11.1.4, p. 254-255).
 - Benefits to countries: earning foreign exchange, more efficient use of resources, improving growth prospects and employment potentials, increased standard of living (NCERT §11.1.5, p. 255-256).
 - Benefits to firms: prospects for higher profits, increased capacity utilisation (leading to economies of scale), prospects for growth, way out of intense domestic competition, improved business vision (NCERT §11.1.5, p. 256).
 - Modes of entry into international business: (1) Exporting and Importing — direct or indirect; easiest entry mode with lowest investment risk but high transportation costs and limited foreign-market exposure (NCERT §11.2.1, p. 256-258).
 - (2) Contract manufacturing (outsourcing) — international firm gets components, assembly, or complete products produced by local foreign manufacturers under its specifications; gives scale without investment but risks quality control loss (NCERT §11.2.2, p. 258-260).
 - (3) Licensing and Franchising — licensor/franchiser grants rights to patents, trademarks, technology in return for royalty; franchising applies to services (e.g., McDonalds, Pizza Hut), is more stringent than licensing; less investment but risks of trade-secret leakage (NCERT §11.2.3, p. 260-261).
 - (4) Joint Ventures — jointly owned firm by two or more independent firms, made by foreign investor buying interest, local firm acquiring interest, or both jointly forming a new enterprise; shares cost/risk but causes control conflicts (NCERT §11.2.4, p. 261-262).
 - (5) Wholly Owned Subsidiaries — parent invests 100 per cent equity, either as a greenfield venture or by acquiring an existing foreign firm; gives full control but requires huge investment and bears all losses (NCERT §11.2.5, p. 262-263).
 - Export procedure has 17 steps: enquiry & quotation (proforma invoice), receipt of indent, credit assessment (letter of credit), obtaining export licence (needs IEC number from DGFT, RCMC from export promotion council, ECGC registration), pre-shipment finance, production/procurement, pre-shipment inspection (under Export Quality Control and Inspection Act, 1963), excise clearance (duty drawback if refunded), certificate of origin, reservation of shipping space (shipping order), packing & forwarding, insurance, customs clearance (shipping bill), mate's receipt,

payment of freight & bill of lading, invoice, securing payment (bill of exchange — sight draft or usance draft; bank certificate of payment) (NCERT §11.3.1, p. 263-268).

- Import procedure has 10 steps: trade enquiry, procurement of import licence (IEC number from DGFT), obtaining foreign exchange (RBI Exchange Control Department sanction), placing order/indent, obtaining letter of credit, arranging finance to avoid demurrage, receipt of shipment advice, retirement of import documents (sight draft = pay; usance draft = accept), arrival of goods (import general manifest), and customs clearance and release (delivery order, port trust dues receipt, bill of entry) (NCERT §11.3.2, p. 268-273).

2.2 Definitions to memorise

Term	Definition	Page
International business	Business transactions taking place beyond the geographical boundaries of one's own country, including trade in goods, services, capital, technology and intellectual property	247-248
Merchandise exports/imports	Trade in tangible goods that can be seen and touched	252
Invisible trade	Trade in services (intangibles) such as tourism, banking, insurance, transportation	252
Foreign Direct Investment (FDI)	Direct investment in plant and machinery in a foreign country, giving the investor a controlling interest	254
Portfolio investment	Investment by acquiring shares, bonds, bills, notes or providing loans to a foreign company; investor does not get involved in production/marketing	255
Contract manufacturing (outsourcing)	A type of international business where a firm contracts with local foreign manufacturers to produce components, assemble or fully manufacture products to its specifications	258
Licensing	Contractual arrangement where one firm grants access to its patents, trade secrets or technology to another firm in a foreign country for a fee called royalty	260
Franchising	Similar to licensing but applies to services; more stringent; parent is franchiser, other party is franchisee (e.g., McDonalds, Pizza Hut, Wal-Mart)	260
Joint venture	A firm jointly owned by two or more otherwise independent firms	261-262
Wholly owned subsidiary	A foreign company in which the parent makes 100 per cent equity investment, exercising full control; can be greenfield or by acquisition	262
Proforma invoice		263-264

Term	Definition	Page
	A quotation sent by the exporter giving price, quality, grade, size, weight, mode of delivery, type of packing and payment terms	
Indent	An order placed by the importer containing description of goods, prices, delivery terms, packing, marking and delivery instructions	264
Letter of credit	A guarantee issued by the importer's bank that it will honour payment up to a certain amount of export bills to the bank of the exporter	264
IEC number	Import Export Code number issued by the Directorate General of Foreign Trade (DGFT) which must appear on export/import documents	264
RCMC	Registration cum Membership Certificate obtained from the appropriate export promotion council	265
Duty drawback	Refund of excise duty paid on materials used in manufacturing goods meant for export	266
Certificate of origin	A certificate stating the country where the goods were produced; entitles the importer to tariff concessions or exemptions	266
Shipping order	Instruction from the shipping company to the captain of the ship that specified goods after customs clearance should be received on board	266
Shipping bill	The main document on the basis of which customs office gives permission for export	266
Mate's receipt	A receipt issued by the commanding officer of the ship after the cargo is loaded on board	267
Bill of lading	Document issued by the shipping company as official receipt of goods on board, undertaking to carry them to destination; also a document of title freely transferable by endorsement	267, 270
Airway bill	The air-cargo equivalent of a bill of lading	267, 270
Bill of exchange	A written order by the exporter to the importer to pay a specified amount; sight draft = pay against documents; usance draft = accept and pay after a specified period	267-268
Bank certificate of payment	Certificate confirming that the necessary documents have been negotiated and payment received in accordance with exchange control regulations	268
Import general manifest	Document containing details of imported goods, on the basis of which unloading takes place	272

Term	Definition	Page
Bill of entry	Form supplied by customs office, filled by importer in triplicate, for assessment of customs import duty	273-274
C&F agent	Clearing and Forwarding agent entrusted with customs and port formalities	267
Port trust dues receipt	Receipt given to the importer after paying the Landing and Shipping Dues Office charges	273
Delivery order	Endorsement on the bill of lading (or separate order from shipping company) entitling the importer to take delivery of goods	272-273

2.3 Diagrams / processes to remember

- Table 11.1 — Major Differences between Domestic and International Business on 8 bases: nationality of buyers/sellers, nationality of other stakeholders, mobility of factors of production, customer heterogeneity, business systems and practices, political system and risks, business regulations and policies, currency used (NCERT p. 253).
- Three forms of contract manufacturing — (a) production of components, (b) assembly of components into final products, (c) complete manufacture (NCERT §11.2.2, p. 258).
- Three ways of forming a joint venture — (i) foreign investor buying interest in a local company, (ii) local firm acquiring interest in an existing foreign firm, (iii) both jointly forming a new enterprise (NCERT §11.2.4, p. 262).
- Two ways of setting up a wholly owned subsidiary — (i) greenfield venture (new firm), (ii) acquisition of an existing firm in the foreign country (NCERT §11.2.5, p. 262).
- Sequence of major export documents — Proforma Invoice → Indent → Letter of Credit → IEC + RCMC + ECGC registration → Pre-shipment Inspection Certificate → Certificate of Origin → Shipping Order → Shipping Bill → Mate's Receipt → Bill of Lading → Commercial Invoice → Bill of Exchange → Bank Certificate of Payment (NCERT §11.3.1, p. 263-268).
- Sequence of major import documents — Trade Enquiry → Proforma Invoice → Import Licence (IEC) → Foreign Exchange Sanction (RBI) → Indent → Letter of Credit → Shipment Advice → Bill of Exchange (sight/usance) → Import General Manifest → Delivery Order → Port Trust Dues Receipt → Bill of Entry (NCERT §11.3.2, p. 268-273).

2.4 Common confusions / NTA trap points

- International business ≠ international trade. International business is the broader term — it includes trade plus foreign investment, licensing, franchising, joint ventures

- and wholly owned subsidiaries (NCERT §11.1.1, p. 248). NTA loves to slip "international trade" into a statement and call it "international business".
- FDI vs portfolio investment — FDI gives controlling interest (direct involvement in production/marketing); portfolio investment yields only dividends/interest (no operational control) (NCERT §11.1.4, p. 254-255).
 - Licensing vs franchising — licensing applies to goods (production/marketing); franchising applies to services and is MORE stringent (more rules) (NCERT §11.2.3, p. 260). Distractor: "franchising is less stringent than licensing" — wrong.
 - Bill of lading (shipment) vs bill of entry (import customs) vs bill of exchange (payment order) — three completely different documents. NTA frequently swaps these.
 - Shipping bill vs shipping order — shipping order is the shipping company's instruction to the captain to accept goods on board; shipping bill is the main customs document for export permission.
 - Sight draft vs usance draft — sight = documents released only against PAYMENT; usance = documents released against ACCEPTANCE (pay later).
 - IEC number is issued by DGFT, not RBI. RBI handles foreign exchange sanction.
 - Duty drawback = refund of excise duty on inputs used in goods meant for export (administered by Directorate of Drawback under Ministry of Finance) (NCERT §11.3.1, p. 266).
 - **Greenfield vs Acquisition (wholly owned subsidiary)** — greenfield is a brand-new firm built from scratch in the foreign country; acquisition is buying an existing foreign firm. Both achieve 100% equity but the operational risks differ (NCERT §11.2.5, p. 262).
 - **17-step export procedure vs 10-step import procedure** — students often misremember the counts. Export has the longer chain; import is simpler.
 - **Certificate of origin** entitles the importer to **tariff concessions/exemptions** — not the exporter. CUET stems sometimes attribute the benefit to the wrong party.
 - **ECGC vs DGFT vs RBI** — ECGC (Export Credit Guarantee Corporation) provides export-credit insurance; DGFT issues the IEC number; RBI sanctions foreign exchange. Three different agencies — easy to mis-pair.

2.5 Case examples

- **McDonald's, Pizza Hut, Wal-Mart franchising in India (NCERT § 11.2.3, p. 260)** — the named examples of **franchising** as a mode of entry. McDonald's India operates under franchise agreements that bind franchisees to brand standards, ingredients, training and supplier choice — illustrating why franchising is "more stringent than licensing".
- **Tata Motors' acquisition of Jaguar Land Rover (NCERT context, § 11.2.5)** — invoked through the discussion of wholly owned subsidiaries by acquisition. Tata

Motors' 2008 purchase of JLR from Ford is the canonical Indian case of an acquisition-route wholly owned subsidiary giving the parent full control over a foreign brand.

- **Maruti-Suzuki (NCERT context, § 11.2.4 joint venture)** — the original Maruti Udyog Ltd. was a joint venture between the Government of India and Suzuki Motor Corporation of Japan. It illustrates the joint-venture model: shared cost and risk, technology transfer from the foreign partner, and local market knowledge from the Indian partner.
- **Indian IT services BPO contracts (NCERT context, § 11.2.2 contract manufacturing)** — companies like Infosys, TCS and Wipro have built global businesses on contract manufacturing of software services for foreign clients. The case illustrates how contract manufacturing/outsourcing can scale without foreign equity investment.
- **EPCG / Duty Drawback scheme (NCERT § 11.3.1, p. 266)** — the Indian government's Export Promotion Capital Goods scheme and the Duty Drawback mechanism are live examples of how excise refunds on inputs make Indian exports competitive in global markets.

Practice MCQs

Q1. Which of the following statements about international business is correct?

- A.** International business and international trade are synonymous terms.
- B.** International business is restricted only to merchandise exports and imports.
- C.** International business is broader than international trade and includes trade, services, foreign investment and overseas production.
- D.** International business excludes intellectual property like patents and trademarks.

Q2. Which of the following is NOT one of the eight bases on which domestic and international business differ as listed in Table 11.1?

- A.** Mobility of factors of production
- B.** Currency used in business transactions
- C.** Climate of the trading countries
- D.** Customer heterogeneity across markets

Q3. Match the following modes of entry into international business with their distinguishing features: | Mode | Feature | |---|---| | (i) Contract manufacturing | (1) 100 per cent equity investment by parent firm | | (ii) Franchising | (2) Goods produced by local firms in foreign countries as per the international firm's specifications | | (iii) Joint venture | (3) Used in connection with provision of services; more stringent than licensing | | (iv) Wholly owned subsidiary | (4) Firm jointly owned by two or more otherwise independent firms |

- A.** (i)-(2), (ii)-(3), (iii)-(4), (iv)-(1)
- B.** (i)-(1), (ii)-(2), (iii)-(3), (iv)-(4)
- C.** (i)-(3), (ii)-(2), (iii)-(1), (iv)-(4)
- D.** (i)-(4), (ii)-(1), (iii)-(2), (iv)-(3)

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PYQ Alignment

International Business is one of the highest-yield topics in CUET Business Studies 305 — typically 6 to 10 MCQs per year, with the heaviest weight on (i) definitions of export-import documents (letter of credit, bill of lading, mate's receipt, bill of entry, shipping bill, bill of exchange), (ii) FDI vs portfolio investment, (iii) modes of entry into international business with their advantages/limitations, and (iv) the differences between domestic and international business as tabulated in Table 11.1. Match-the-following and assertion-reason formats are especially common.