MEANING AND DEFINITION OF INTERNATIONAL TRADE

- International trade is the exchange of goods and services beyond the boundaries of the country.
- When trade i.e. exchange of goods and services takes place within the countries of the world it is called as international trade.
- International trade provides many advantages to the country and also supports the economic development and growth.
DIFFERENCE BETWEEN DOMESTIC TRADE AND INTERNATIONAL TRADE
<table>
<thead>
<tr>
<th>DOMESTIC TRADE</th>
<th>INTERNATIONAL TRADE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LANGUAGE</strong></td>
<td></td>
</tr>
<tr>
<td>Only one language (national language) is spoken.</td>
<td>Different languages are spoken which can create problems sometime.</td>
</tr>
<tr>
<td><strong>MOBILITY OF FACTORS OF PRODUCTION</strong></td>
<td></td>
</tr>
<tr>
<td>In domestic trade factors are more mobile.</td>
<td>In international trade factors are mostly immobile.</td>
</tr>
<tr>
<td><strong>NATURAL AND ECONOMIC CONDITION</strong></td>
<td></td>
</tr>
<tr>
<td>Natural and economic condition is not so different in the different parts of same country.</td>
<td>Large amount of natural and economic difference can be spotted which obstructs trade.</td>
</tr>
<tr>
<td><strong>BANKING SYSTEMS AND ECONOMIC POLICIES</strong></td>
<td></td>
</tr>
<tr>
<td>Same banking systems and policies.</td>
<td>Different banking systems and economic policies according to the countries.</td>
</tr>
<tr>
<td><strong>CURRENCY</strong></td>
<td></td>
</tr>
<tr>
<td>Single currency</td>
<td>Multiple currencies.</td>
</tr>
<tr>
<td><strong>SYSTEMS OF PAYMENT</strong></td>
<td></td>
</tr>
<tr>
<td>According to the government policies.</td>
<td>According to the dominant country or organization related to trade.</td>
</tr>
<tr>
<td>DOMESTIC TRADE</td>
<td>INTERNATIONAL TRADE</td>
</tr>
<tr>
<td>---------------------------------------------------------</td>
<td>---------------------------------------------------------</td>
</tr>
<tr>
<td><strong>DIFFERENT NATIONAL POLICIES</strong></td>
<td></td>
</tr>
<tr>
<td>Same for one country.</td>
<td>As more countries are involved there in difference of national policies.</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>DIFFERENT POLITICAL BACKGROUND</strong></td>
<td></td>
</tr>
<tr>
<td>During domestic trade political background in the country is remains same.</td>
<td>During international trade the political background is not same as number of countries is more.</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>DIFFERENT GOODS, TRANSPORT COST, MARKETS</strong></td>
<td></td>
</tr>
<tr>
<td>SAME</td>
<td>DIFFERENT</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CLIMATIC AND GEOGRAPHICAL DIFFERENCES</strong></td>
<td></td>
</tr>
<tr>
<td>SAME</td>
<td>DIFFERENT</td>
</tr>
</tbody>
</table>
ADVANTAGES OF INTERNATIONAL TRADE

- Increase in national income.
- Increase in foreign exchange reserve.
- Increase in exports.
- Increase in investment.
- Increase in employment.
- Economic growth and development.
- Infrastructural development.
- Optimum use of resources.
- Decrease poverty.
- Balanced growth.
DISADVANTAGES OF INTERNATIONAL TRADE

- Misallocation of resources.
- Unbalanced regional development.
- One-sided development.
- Emergence of monopolies.
- Increase in imports.
- Control of Dominating countries.
- Increases gap between rich and poor.
- Exploitation of labour.
- Environmental degradation.
The terms of trade of a nation are defined as the ratio of the price of its exports to the price of its imports. Since in a two-nation world, the exports of a nation are the imports of its trade partner, the terms of trade of the latter are equal to the inverse, or reciprocal, of the terms of trade of the former.

An improvement in a nation’s terms of trade is favorable when exports are more than imports and terms of trade are unfavorable when imports are more than exports of the country.
The commodity terms of trade is the ratio between the price of a country’s export goods and import goods.

\[ T_c = \frac{P_x}{P_m} \]

Where \( T_c \) stands for the commodity terms of trade, \( P \) for price, the subscript \( x \) for exports and \( m \) for imports.
GROSS BARTER TERMS OF TRADE

- The gross barter terms of trade is the ratio between the quantities of a country’s imports and exports.
  - \( T_g = \frac{Q_m}{Q_x} \)
- where \( T_g \) stands for the gross terms of trade, \( Q_m \) for quantities of Imports and \( Q_x \) for quantities of exports.
- The higher the ratio between quantities of imports and exports, the better the gross terms of trade.
- A larger quantity of imports can be had for the same volume of exports.
Dorrance has improved upon the concept of the net barter terms of trade by formulating the concept of the income terms of trade.

This index takes into account the volume of exports of a country and its export and import prices (the net barter terms of trade).

It shows a country’s changing import capacity in relation to changes in its exports.

\[ Ty = Tc \cdot Qx = \frac{Px \cdot Qx}{Pm} = \text{Index of Export Prices} \times \text{Export Quantity/Index of Import Prices} \]

Where \( Ty \) is the income terms of trade, \( Tc \) the commodity terms of trade and \( Qx \) the export volume index.
Prof. Viner had developed the concept of single factorial terms of trade which allows changes in the domestic export sector.

\[ Ts = T_c \cdot F_x \]

Where \( Ts \) is single factorial terms of trade, \( T_c \) is commodity terms of trade and \( F_x \) is export productivity.
The double factorial terms of trade take into consideration productivity changes both in the domestic export sector and foreign export sector producing the country’s imports.

\[ T_d = T_c \cdot F_x / F_m \]

Where \( T_d \) is double factorial terms of trade, \( T_c \) is commodity terms of trade, \( F_x \) is export productivity, \( F_m \) is import productivity.
REAL COST TERMS OF TRADES

• Viner has also developed a terms of trade index to measure the real gain from international trade.

• This index is calculated by multiplying the single factorial terms of trade with the reciprocal of an index of the amount of disutility per unit of productive resource used in producing export commodities.

  • $\text{Tr} = \text{Ts}.\text{Rx}$

• Where Tr is rel cost terms of trade, Ts is single factorial terms of trade and Rx is resources of producing export commodities.
UTILITY TERMS OF TRADE

• The utility terms of trade index measures “changes in the disutility of producing a unit of exports and changes in the relative satisfactions yielded by imports, and the domestic products foregone as the result of export production.”

  • \( Tu = Tr.u = \frac{Px}{Pm.Fx.Rx.u} \)

• Where \( Tu \) is utility terms of trade, \( Tr \) Real cost terms of trades, \( u \) is index of relative utility.
BALANCE OF TRADE

• Balance of trade is the difference between the value of goods and services exported and imported.
• Balance of trade is also known as net export, trade balance, or international trade balance. Also, it is considered as a part of the current account.
• It is usually a difference between the country’s exports and imports of goods for a given period of time.
• In this, imports and exports of services are not included. The services include invisible items like insurance, banking, interest, dividends on assets, profits, software services, etc. These items are termed as invisible because you cannot see them in cross border trades.
Based on the definition of BOT, the total value of exports — the total value of imports = Balance of trade. It is considered as the largest component of the country’s BOP. Also, this helps in determining the relative strength of the country’s economy.

When the value of imports is more than its exports, than for a country this is considered as the unfavorable balance of trade. Also, this can be termed as a trade deficit. Also, if the value of exports is more than the value of its imports than it is called a positive or favorable BOT for a country. This is called a trade surplus.
BALANCE OF PAYMENT

• The balance of payments is the record of all international trade and financial transactions made by a country's residents.

• The balance of payments has three components. They are the **current account**, the **financial account**, and the **capital account**.

• The current account measures international trade, net income on investments, and direct payments.

• The financial account describes the change in international ownership of assets.

• The capital account includes any other financial transactions that don't affect the nation's economic output.
COMPONENTS OF BOP

• **Current Account:** It includes export and import of goods and services i.e. visible and invisible trade. This type of transaction changes (increase or decreases) the current level of consumption of the country.

• **Within the current account are credits and debits on the trade of merchandise, which includes goods such as raw materials and manufactured goods that are bought, sold or given away (possibly in the form of aid).**

• **Services** refer to receipts from tourism, transportation (like the levy that must be paid in Egypt when a ship passes through the Suez Canal), engineering, business service fees (from lawyers or management consulting, for example), and royalties from patents and copyrights. **When combined, goods and services together make up a country's balance of trade (BOT).**
The BOT is typically the biggest bulk of a country's balance of payments as it makes up total imports and exports. If a country has a balance of trade deficit, it imports more than it exports, and if it has a balance of trade surplus, it exports more than it imports.

- Receipts from income-generating assets such as stocks (in the form of dividends) are also recorded in the current account. The last component of the current account is unilateral transfers. These are credits that are mostly worker's remittances, which are salaries sent back into the home country of a national working abroad, as well as foreign aids that are directly received.

B. Capital Account: Inflow and outflow of capital including foreign investment, gold and foreign exchange reserves. This is of stock nature.
The **capital account** is where **all international capital transfers are recorded**. This refers to the acquisition or disposal of non-financial assets (for example, a physical asset such as land) and non-produced assets, which are needed for production but have not been produced, like a mine used for the extraction of diamonds.

The capital account is broken down into the monetary flows branching from debt forgiveness, the transfer of goods, and financial assets by migrants leaving or entering a country, the transfer of ownership on fixed assets (assets such as equipment used in the production process to generate income), the transfer of funds received to the sale or acquisition of fixed assets, gift and inheritance taxes, death levies, and, finally, uninsured damage to fixed assets.
C. The Financial Account

In the financial account, international monetary flows related to investment in business, real estate, bonds and stocks are documented.

Also included are government-owned assets such as foreign reserves, gold, special drawing rights (SDRs) held with the International Monetary Fund, private assets held abroad, and direct foreign investment. Assets owned by foreigners, private and official, are also recorded in the financial account.
THANK YOU