9 Foreign Trade

Introduction

The geographical boundaries of our country like all countries is determined. There are legal restrictions and sometimes prohibitions on crossing geographical boundaries of a country. Then, have we ever thought that how do we have a Korean refrigerator, Japanese TV in our homes, German cars on our roads, American tractors in our farms, UK made shoes and garments in our malls ? Do we know that bulk of the petrol and diesel with which our vehicles run comes from Gulf countries ?

Hence, we will understand in this chapter that the activity of exchanging goods, services, technology etc. by a country across the geographical boundary is called international trade. Besides, we will also understand some important aspects of international trade.

9.1 Meaning of Domestic and International (Foreign) Trade

Trade means a commercial (business) activity which involves exchange of goods, services, resources, capital, technology, know - how, intellectual property etc. In other words, trade is an activity in which such goods are exchanged for earning profit.

Activity of trade which takes place within the geographical boundary of a nation is called internal (domestic) trade and trade activity taking place outside the geographical boundary of a country is called International Trade (Foreign Trade).

9.2 Reasons for International Trade

The main reasons for occurrence of trade stated in economics are as below :

(1) Difference in Factor Endowments in Various Countries : Different countries are endowed with different factors of production in different proportions. Besides, all countries may not have all the factors necessary for production of all types of goods. Hence countries trade in resources, factors of production and technology to fulfil their requirements.

(2) Cost of Production : Owing to differences in availability of factors of production and resources, the cost of production of goods and services is also different in different countries. Scarcity of factors leads to higher price of those factors in a country and hence to a higher cost of production of goods and services. When domestic cost of production is higher, it becomes cheaper and easier to import such goods and services from countries where they are produced cheaply.

(3) Technological Progress : All countries do not achieve the same level of technological progress. Besides, some countries have expertise in some type of technology while others possess greater ability in another type of technology. Hence, every country does not possess equal efficiency in production of all types of goods and hence trade in goods and services takes place between countries.

(4) Division of Labour and Specialization : Labour productivity and dexterity in each country is different. Besides, entrepreneurial efficiency is also different. Hence, differences in division of labour and specialization are found to exist between countries. This means, since labour in some countries is more efficient in production of some types of goods and services, such countries specialize in the production of such goods, while they imports those goods and services which they are not able to produce more efficiently.

If any country attempts to produce goods and services which she is not specializing in then she imports expertise and know-how from other countries for helping such production.

9.3 Factors affecting the nature of International Trade

Nature of international trade means such special features and aspects of trade which gives it a unique identity from other activities. The nature of international trade is determined by the circumstances affecting trade, policies and laws governing trade. These are :

(1) The Geographical and Occupational Mobility of Factors of Production is lesser in International Trade : Labour is less mobile in international trade owing to policy and social reasons. Certain type of huge capital is less mobile, while there are policy restrictions on mobility of some other types of capital. Entrepreneurs are less mobile for the same reasons as labourers. But in present times entrepreneurship has become more mobile. Land has no geographical mobility.

Hence, owing to lower mobility of factors of production, the size of international trade is restricted to some extent.

(2) Trade in Many Varieties of Goods : Large varieties of goods and services are made available through international trade so as to satisfy the needs of populations with different standards of living and different lifestyles.

The very success and prosperity of international trade depends upon '*variety*'. For example, in countries where there is scarcity of electricity, there will be greater demand for manually operated machines while in countries with abundant supply of electricity there will be greater demand for automatic machines.

(3) More Challenging in Nature : International trade is more challenging for traders as the environment, language, culture, customs, preferences, habits, tastes etc. of people in different countries is different. Traders have to overcome these barriers in order to trade.

(4) Requirement of Diplomatic Efforts : For the setting up and development of international trade the efforts of traders solely are not enough. The government of every nation has to make diplomatic efforts, hold informal meetings and at the same time nations have to organize trade fairs etc. For example, in order to promote international trade in Gujarat, the state government organizes the 'Vibrant Gujarat Summit' in which representatives of governments and businesses of various countries participate to exchange business information as well as to get an idea of the policies of the state, culture of people and other such relevant information.

Since the political and business establishments and economic policies of all nations are different, diplomatic efforts are essential along with the efforts of businesses towards production, sales and promotion.

(5) Knowledge and Forecasts Regarding the Value of Different Currencies : Payments in international trade are to be made in internationally acceptable currencies and every trading country has to convert her national currency into international currency. For this proper information regarding value of various currencies and the changes in their values is essential. If foreign currency is purchased at an expensive rate then the trader may incur a loss. It is for this that traders have to hire experts who can guide in matters of exchange rates.

(6) Joint Effort of Nations and International Organizations : International trade can develop only with the joint efforts of governments of various countries of the world and of international organizations like World Trade Organization. The political systems of all countries must work towards making their policies more conducive for trade, the social and cultural groups must be open to trade, the industry associations must co-operate to enter in trade and enhance trade and so on.

(7) Impact of Political and Social ideologies : The size and direction of international trade is greatly influenced by the political and social events taking place in the world. For example, trade relations between nations get disturbed owing to events like world war, on the other hand if leaders of the world engage in promoting trade then nations are diverted away from war and world trade increases.

The size and direction of a particular nation's trade is determined much by the ideology of that nation, social structure, historical events and its relation with other countries of the world.

(8) Vast Scale : The scale of international trade is vast as it involves several countries, several varieties of goods, several rules, international organizations etc.

(9) Involves more Permissions and Taxes : In order to carry out international trading activity, traders need several permissions and licenses from their respective countries. They have to clear procedures regarding tradable goods and quality of goods; clear the custom procedures; fulfil the requirements of international freight and transport procedures, the quality tests for different countries (food and drug quality tests for different countries are different) etc. Owing to different quality standards, traders need to have information regarding methods of production in different countries. Production for exports must be made accordingly.

(10) Involves Higher Degree of Competition : Several countries of the world make attempts to produce and sell a variety of goods and services. Hence the degree of competition among sellers is very high. Similarly, the product or service may be demanded by consumers of several countries and so the degree of competition among buyers is also very high.

The risk of creating a market and generating demand for a product is very high in the international market. High quality standards have to be maintained, huge promotional expenses as well as sales costs have to be incurred and greater efforts have to be made to satisfy customers of a foreign country. After adhering to all these requirements if the trader is not able to capture enough share of the market demand then she/he may incur a loss.

9.4 Difference between Domestic Trade and International Trade

The nature of international trade is different from that of domestic trade and it involves hurdles and challenges different from those of domestic trade. Hence, It is important to understand the difference between domestic trade and international trade. The basic difference between the two can be summarised as under :

(1) Based on Scale : The scale of international trade is much larger than that of domestic trade as it involves more countries, more variety of goods, more procedures and greater rules etc.

(2) Based on Currencies and Modes of Payment : Transactions in domestic trade are made only in domestic currency and payment is transferred from one bank to another of the same country. International trade involves several currencies and exchange rates; it involves conversion of the trading countries' currencies at a determined exchange rate into an internationally acceptable currency. payment is to be made in internationally acceptable currency. Besides, in international trade, the procedures are more rigorous involving several permissions, clearances and duties. Buyers have to obtain letter of credit from their respective banks for assurance of payment to sellers.

(3) Based on Language, Culture and Society : Transactions in domestic trade take place within a common social, cultural and language set up. In international trade these are very different and hence traders have to be more careful to avoid controversies or hurt sentiments or even to avoid legal offence.

Goods which suit the life styles of each country's people can only be sold.

(4) Based on Transport Cost : The transport cost in international trade is much higher than in domestic trade as goods have to be transported outside the country. The transport duties for international trade may entail higher expenses than the domestic taxes.

(5) Based on Degree of Competition : Degree of competition is relatively lesser in domestic trade even if there are many producers of the same product as the nature of factors of production and technology in one country is common. The degree of product differentiation is smaller and therefore limited variety of goods are produced. But under international trade, producers/traders compete on the basis of variety and differentiation of same product. Besides, there is competition among domestic and international sellers in a country to obtain market share for selling a product.

For example, when the production and sale of foreign cars was not allowed in India, the competition among Indian car manufacturers was not very high as compared to the competition of today's times where we witness introduction of new models, attractions/incentives for buyers, new advertisements etc. very frequently. Foreign car makers make continuous efforts to increase their share in the Indian car market.

(6) Based on Consumer Satisfaction : It is not very difficult to satisfy consumers in domestic trade as the society, level of awareness and education, information, preferences, values, tolerance level etc. in one country are almost similar. In other words, consumers expectations are known and traders undertake production and adopt sales and promotion methods accordingly.

These aspects are different in different countries of the world and hence it is more difficult to satisfy buyers in international trade.

In other words, consumer behaviour is predictable in domestic trade while it is not easily predictable in international trade.

(7) Based on Administrative and Legal Systems : Administrative and legal systems and procedures in domestic trade are known to the traders so they face relatively lesser difficulty in undertaking trading activity. Such systems are highly different in different countries and hence it is almost impossible for a trader to trade without understanding the tax system, the system of obtaining licenses, permissions as well as the legal systems of various countries of the world. The process of obtaining such information about foreign countries is expensive.

9.5 Magnitude of World Trade in Present Times

The World Trade Report, 2013 has stated some trends of world trade from the work of historian Agnus Maddison.

Since the mid-1800s, the world's population has grown roughly six-fold, world output has grown 60-fold, and world trade has grown over 140-fold.

According to this report, dramatic decreases in transport and communication costs have been the driving forces behind today's global trading system. Geopolitics has also played a decisive role in advancing and reinforcing these structural trends.

In the last 30 years, world merchandise and commercial services trade have increased by about 7 per cent per year on average.

Between 1980 and 2011, the share of developing economies in world trade increased from 34 % to 47 % and their share in world imports increased from 29 % to 42 %. The Asian countries are playing an increasing role in world trade.

For a number of decades, world trade has grown on average nearly twice as fast as world production (World GDP growth). This reflects the increasing prominence of international supply chains and hence the importance of measuring trade in value-added terms.

Table 9.1

Average Annual Growth of World Trade During Different Time Periods

Time Period	World Trade Growth
1950-1973	7.88 %
1973-1985	3.65 %
1985-1996	6.55 %
1996-2000	6.89 %
2000-2011	5.00 %
2015-2016	2.8 %

Source : Compiled from various sources

9.6 India's Share in Global Trade

India's share in the world trade has remained low considering the size and growth of world trade. However, as a developing nation India plays an important role in determining direction of world trade. India's own exports have grown significantly and exports are rising significantly as a percentage of GDP.

Though India's exports are also rising significantly, the growth rate of imports has been higher than the growth rate of exports. Imports also constitute a greater percentage of GDP than exports.

India is able to import more because the rising pace of growth and development have increased the demand for imports and the ability to import. India is able to export more because it is now able to produce better and desirable quality of goods at a competitive price and is able to generate more exportable surplus.

Share of India's total trade in world trade in 2014-15 was about 2.07 %.

Table 9.2

Share of India's exports in the world exports

Financial Year	Share in global merchandise exports	Rank
2005	0.9	29
2010	1.5	19
2012	1.6	19
2013	1.7	19
2014	1.7	19

Source : EXIM Bank

9.7 Size, Composition (Nature) and Direction of India's Foreign Trade

In order to understand the trends of trade, the development of trade, the efforts of a country to promote her trade in international market, and to know the relations of a country with other countries; as well as in order to check the quality of domestic production according to international standards and the competitiveness of domestic products in international market, it becomes important to know the size, composition and direction of the country's foreign trade.

9.7.1 Size of India's Foreign Trade :

In simple terms, size of foreign trade means, the total value and volume of merchandise imports and exports of a country. Every successive year if the payments made towards imports and revenues generated from exports rise, the percentage share of trade value rises in national income and the share of a country's trade in world trade rises then it is concluded that the size of the country's foreign trade has increased.

Between the period from 1951 and 2016 the size of India's imports and exports, their percentage share in national income as well as their share in world trade have increased. However, the size and growth rate of imports has been higher than that of exports in most years.

Note : If the value of imports or exports rises in successive years because of a price rise then such a rise in value does not signify an increase in size of trade. Size of trade is said to increase when value increases owing to increase in volume of imports and exports over previous years. Hence the value of a country's imports and exports is measured at constant prices or in US $. (When value of imports and exports is measured in US $, the changes in prices of import goods and export goods in successive years are adjusted in the exchange rate mechanism and thus we can obtain size of trade in real terms.)

Table 9.3

Size of India's Foreign Trade after 1991 (in mn. US $)

	1991-92	1998-99	2014-15
Merchandise Exports	17.9	33.2	310.5
Merchandise Imports	19.4	42.4	448.0
Balance of Trade	–1.5	–9.2	–137.5

Source : Economic Survey of India, 2015-16

In the initial years after independence the size of developmental imports remained large but owing to lower capacity to export, India's exports remained lower.

As India started developing more, after 1980, the imports for sustaining, maintaining and expanding the large industries started rising. During this period, incomes of people in the country started rising in good proportion and so domestic demand for goods increased owing to which lesser amount of exportable surplus was generated. Hence, exports remained lower.

After 1991, India's exports increased significantly. To sustain international competition, the demand for technology, petrol etc. by industries remained very high but along with this, exports also increased.

(Developmental imports constitute raw materials, know-how, machines etc. Maintenance imports constitute electricity, infrastructural facilities, imports related to skill formation etc.)

Table 9.4

Percentage Share of Trade in India's GDP (Gross Domestic Product)

Year	Percentage Share of Trade in India's GDP Measured in US $
1981	12
1991	13.9
2001	19
2011	41.8
2014	38.3

Source : World Trade Report, 2015

Percentage share of Trade in India's GDP

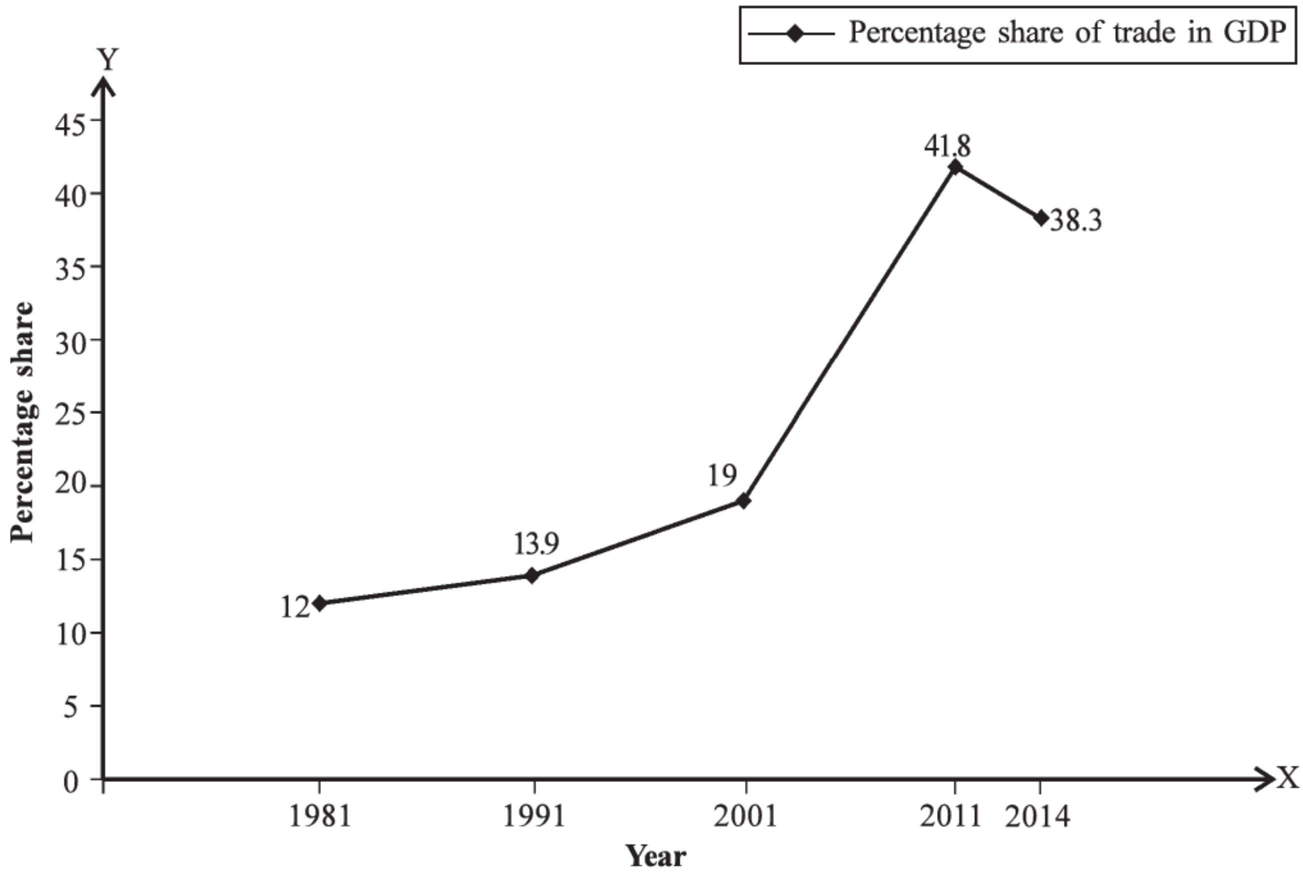

Figure 9.1

9.7.2 Composition (Nature) of India's Merchandise Imports and Exports :

In this section composition of trade signifies the nature of trade. Composition of trade means the items of merchandise imports and exports.

It is noted while checking the nature of India's foreign trade that in 1951 India was a less developed economy, it progressed to become a developing economy by 1980 and progressed still further to gain identity as a fast developing and emerging economy after 2000.

In a less developed economy, imports are very high in all the sectors. In the decade between 1950 and 1960, owing to poor state of agriculture, food grain imports were frequent; besides, developmental imports like machines, capital, technology, know-how, spare parts were also high.

While, in less developed economies, exports of primary goods constitute a high proportion of exports. The exports of tea, coffee, jute, ores and minerals, etc. were much higher from India and the exports of industrial goods were much lower.

When a country starts developing more, the proportion of imports of food grains tends to fall. The share of primary sector goods in total exports tends to fall and that of industrial goods tends to rise. Such trends were found in the decades of seventies and eighties in India's trade.

As a country develops still further, maintenance imports, imports for export oriented industries and imports for diversification and expansion of industrial activity increase; for instance, imports of intermediate goods, raw materials, spare parts, petrol, new technology etc. rose in India with the process of furthering development.

After 1991, the nature of exports and imports changed significantly in India. The proportion of food grains, other agricultural goods and capital goods declined in total imports.

The share of traditional exports like tea, coffee, jute, etc. in total exports declined while that of industrial goods and non-traditional items increased. For example, exports of software.

In 1961, the share of food imports in India's total merchandise imports was 19.1 % which declined to just 3.9 % in 2014-15. This shows, India attained self-reliance in grains and other food items. With increase in the speed of development, India could produce capital and capital intensive goods also more efficiently and thus the imports of these items also fell significantly. In 1960-61, the share of capital intensive goods in India's merchandise imports was as high as 31.7 % which declined to 9.8 % in 2014-15.

The imports of new items in 1960-61 were only 2.2 % of the total merchandise imports which increased to 46.5 % in 2014-15. With diversification in the development process, imports of new goods increased.

In a similar way, the nature of exports has also changed. The share of entire primary sector in India's merchandise exports in 1960-61 was 44.2 % which reduced to as low as 12.3 % in 2014-15 (wherein, the share of tea, coffee exports declined from 19.3 % to 0.2 % and that of jute export declined from 21 % to 0.2 %). Likewise, the share of leather products in merchandise exports declined from 4.4% in 1960-61 to 1.3 % in 2014-15 and that of textile declined from 10 % to 2 % during the same period.

Against that the export of readymade garments increased from 0.1 % in 1960-61 to 5.4 % in 2014-15.

The share of all manufactured goods in total merchandise exports was 45.3 % which increased to 66.7 % in 2014-15.

Exports of petroleum products constituted only 1.1 % of total merchandise exports in 1960-61, which increased to 18.5 % in 2014-15.

9.7.3 Direction of India's Foreign Trade :

Direction of foreign trade means the trade relations of a nation with various countries of the world. The requirements for a country in order to develop trade relations with countries in different directions of the world are,

- Capability to undertake production of large variety of goods.
- Good political and diplomatic relations with many countries.
- Readiness to undertake several diplomatic engagements with other nations.

- Ability and technology for setting up proper sales facilities and trade mechanisms.
- Greater proportion of exportable surplus.

After independence, large proportion of our trade was with England as our trade with England was already established before independence.

In 1960-61, 19 % of our total merchandise imports were from England which fell to less than 2 % after 2007.

After independence we were dependent on USA for many items of imports. In 1960-61 our imports from USA constituted 29 % of our total merchandise imports which fell to less than 8% after 2007.

Over the years our merchandise imports from OPEC increased as our imports of petroleum (crude oil) increased with increasing pace of industrialization and development. (OPEC-Organization of Petroleum Exporting Countries)

India had friendly relations with Russia and our imports from Russia were high after independence which declined since 1980s after the economic crisis in Russia.

Hence, our trade with traditional partners started declining gradually but out trade with other developing countries started increasing, especially with developing countries of East Asia, Central Asia and Africa. Our imports from other developing countries were about 11.8 % of our total merchandise imports in 1960-61 which increased to 32 % in 2007-08 and further to 59 % in 2014-15.

In the same pattern in 1960-61, India's exports to England constituted 26.8 % of the total merchandise exports which reduced to as low as 4 % after 2007-08.

During the same period, India's exports to USA declined from 16 % of the total merchandise exports to 12.7 % and that to Russia from 4.5 % to 0.6 %.

Contrary to this, our merchandise exports to OPEC constituted 4.1 % of our total merchandise exports in 1960-61 which gradually increased over years and after 2007-08 increased over 16 % and during the same period merchandise exports to developing countries increased from 14.8 % to 42.6 % of the total merchandise exports.

From our total merchandise exports, those to Asian countries were almost 50 % in 2014-15. This way, India has made successful attempts to diversify her trade with different countries and in different directions.

Note : The classification of regions made by India for the purpose of indicating the direction of trade had changed after 2007-08.

Table 9.5 Share of Various Regions of the World in India's Merchandise Imports (Financial Year : 2014-15)

Region	% share in India's Merchandise Imports
Asia	59
Europe	16
Africa	08
Latin American Countries	07
North America	06
CIS and Baltic Regions	02
Others	02
Total	**100**

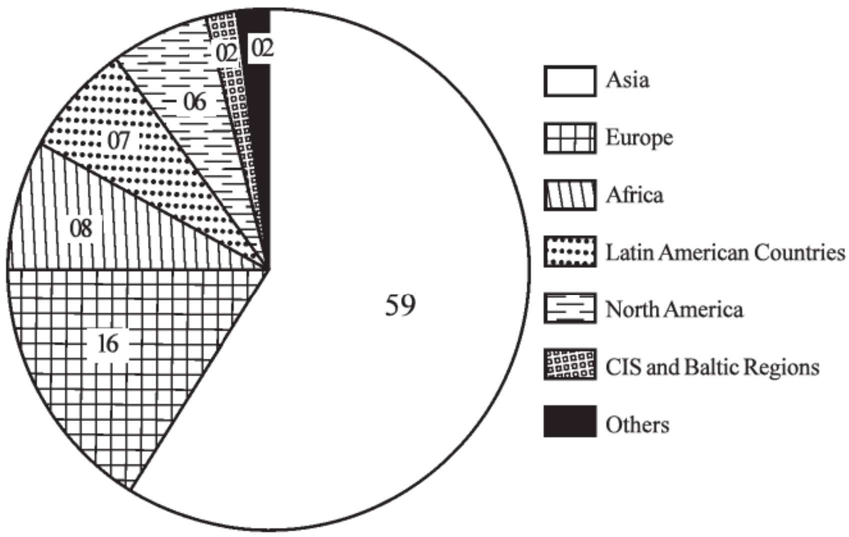

Figure 9.2

Source : EXIM Bank and Economic Survey of India, 2015-16

Table 9.6 Share of Various Regions of the World in India's Merchandise Exports (Financial Year: 2014-15)

Region	% share in India's Merchandise Exports
Asia	50
Europe	18
North America	14
Africa	11
Latin American Countries	05
CIS and Baltic Regions	01
Others	01
Total	**100**

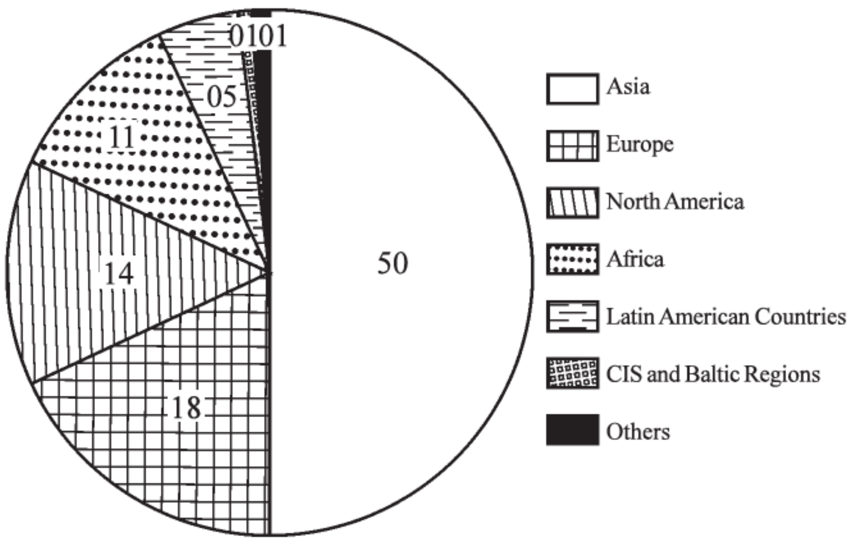

Figure 9.3

Source : EXIM Bank and Economic Survey of India, 2015-16

9.8 Concept of Balance of Payments

Balance of Payments is a systematic account of the value of transactions of a country with the rest of the world in goods and services, transfer payments and capital (assets).

Meaning : An accounting statement showing the value of imports and exports of tangible (visible) and intangible (invisible) goods during a year.

(Tangible or visible goods means goods which have a physical existence. Intangible or invisible goods means services.)

Balance of Payments has a credit entry and a debit entry. All receipts by the home country from foreigners are recorded in the credit entry and all payments by the home country to foreigners are recorded in the debit entry.

9.8.1 Types of balance of Payments :

Balance of Payments can be (1) Balanced (2) Unbalanced.

Balance of Payments is said to be in balance when the value of entries on credit side equals that on the debit side. Balance of payments is unbalanced when the value of entries on the credit side is not equal to entries on the debit side.

If payments are more than the receipts or the value of credit side entries is lesser than the value of debit side entries, there is a deficit in the Balance of Payments.

If receipts are more than payments or the value of credit side entries is greater than the value of debit side entries, there is a surplus in the Balance of Payments.

Note : According to the double entry book keeping system, a balance of payments always balances. However, in reality there can be a deficit or a surplus in the balance of payments.

9.8.2 Accounts of Balance of Payments :

Balance of Payments (BoP) has two accounts : (1) Current account and (2) Capital account

(1) Current Account : This account records the credit and debit entries for the following :

(i) Trade in merchandise goods (tangible goods) : Receipts from exports are recorded as credit entry and payments for imports are recorded as debit entry. The sum total on this section of current account is called the balance of trade. If the payments for merchandise imports are greater than the receipts from merchandise exports then there is a deficit in the balance of trade. The vice versa situation is called surplus on the balance of trade.

(ii) Trade in invisibles or services : The incomes from invisibles are recorded on credit side and payments on debit side.

Combined balance of (i) and (ii) is called the current account balance.

(2) Capital Account : This account records receipts and payments from transactions on assets such as money assets like bonds, shares, gold, capital loans, etc. and other forms of fixed capital.

The total of current account and capital account is called the balance of payments.

9.8.3 Factors Influencing Balance of Payments :

Factors influencing balance of payments means those factors which affect the imports, exports, movement of capital, movement of factors of production, investment, lending etc. in a nation. Deficit or surplus in the balance of payments can arise owing to such factors.

The impact of such factors usually depends upon the level of economic development of a country. Some of these factors can be stated as under :

- Exchange rate.
- Prices of tradable goods in home country and in foreign countries.
- Variety and quality of tradable goods.
- Inevitable imports.
- Level of economic development of the country.
- Legal restrictions on trade.
- Trade supporting facilities and infrastructures like transport, communication etc.

Table 9.7

Hypothetical Example of Balance of Payments

Credit Items (Receipts)		**Debit Items (Payments)**		**Balance**
Current Account (₹ in crores)				
Merchandise Exports	200	Merchandise Imports	300	
Trade Balance				–100
Services exported	100	Services imported	200	
Investment income earned	100	Investment money paid	200	
Unilateral receipts	200	Unilateral payments	100	
Sub Total (Current A/c.)	**600**		**800**	
Current Account Balance = (Sub total on credit side – Sub total on debit side)				–200
Credit Items (Receipts)		**Debit Items (Payments)**		**Balance**
Capital Account (₹ in crores)				
Long term borrowing	200	Long term lending	80	
Short term borrowing	100	Short term lending	60	
Sale of Gold	100	Purchase of Gold	50	
			190	
Sub Total (Capital A/c.)	**400**	Errors and Ommissions	+ 10 = **200**	
Balance on Capital account = (Sub total on credit side – Sub total on debit side)				+200
Total Receipts	**1,000**	**Total Payments**	**1,000**	
Balance of Payments				0

In reality there can be a deficit or surplus in the balance of payments.

9.9 Concept of Exchange Rate

When an Indian tourist visits a foreign country she/he may not be able to purchase goods there in Indian Rupees. They need currency of that country. Likewise when an Indian importer imports goods from a foreign country she/he will have to make payment in that particular country's currency or in an internationally acceptable currency. These are examples of India's demand for foreign currency.

Similarly, foreigners may demand India's currency.

Therefore, such tourists or traders approach banks or officially registered currency traders to convert their domestic currency into a foreign or internationally acceptable currency. Such conversion of currency is done at a specific rate at a specific time which is known as the exchange rate. Exchange rate is the price of a foreign currency in terms of domestic currency. In other words, it is the units of home currency required to buy one unit of a foreign currency.

- *The rate at which the currency of one country can be converted into currency of another country is called exchange rate.*
- *Exchange rate is the price of a foreign currency in terms of domestic currency.*

For a particular country, exchange rate is the price of one unit of a foreign currency in units of home currency; in other words, it is the units of home currency required to buy one unit of a foreign currency.

For example, exchange rate of US \$ 1 = ₹ 60 implies that in order to buy \$ 1, a price of ₹ 60 must be paid.

A rise in the exchange rate for India means that the value of Indian currency has declined in the international market. For now, more Indian ₹ will have to be paid to buy one unit of a foreign currency. It implies that the foreign currency becomes expensive and hence value of Indian ₹ falls.

Initially, if US \$ 1 = ₹ 60 and

exchange rate rises for India, then US \$ 1 = ₹ 65

On the other hand, when exchange rate falls for India, the value of Indian ₹ rises.

(However, in the actual analysis of rise or fall in the value of a currency, the time gap between the rise or fall in value of the currency, prices of goods in the various countries etc. are taken into consideration.)

Sometimes exchange rates change owing to open market forces and sometimes government of a country may alter the exchange rate to impact imports and exports.

If the exchange rate rises for India and value of ₹ falls, the demand for imports by India tends to decline and India's exports tend to rise.

When the price of one US \$ rises from ₹ 60 to ₹ 65, an Indian importer has to pay ₹ 65 now instead of the earlier ₹ 60 to import a commodity worth US \$ 1. Hence, imports tend to fall.

While earlier by spending US \$ 1, a foreign trader could purchase goods worth ₹ 60 earlier while now she/he can buy goods worth ₹ 65. Hence, exports from India tend to rise.

The reverse happens when exchange rate for India falls.

Exercise

1. Choose the correct option for the following questions :

(1) What happens owing to trade ?

(a) The mobility of factors of production declines.

(b) The number of industries declines.

(c) Production process slows down.

(d) Diversification in production occurs.

(2) In today's time which factor of production is the most mobile in international trade ?

(a) Capital (b) Labour (c) Entrepreneurship (d) Land

(3) Which significant change has occurred in India's foreign trade after 2005 ?

(a) The size of trade has increased and India's rank in world trade has risen.

(b) The size of trade has increased but India's rank in world trade has fallen.

(c) India's balance of payments has continuously recorded a deficit.

(d) The share of traditional exports in trade has increased.

(4) Which countries can be included in the list of India's traditional trade partners ?

(a) England and Russia (b) Japan and China

(c) Countries of Central Asia (d) Australia

(5) What is balance of trade ?

(a) Balance of current account (b) Balance of capital account

(c) Balance of merchandise (visible) trade (d) Balance of service (invisible) trade

(6) A balance of payments has how many accounts ?

(a) 1 (b) 2 (c) 3 (d) 4

2. Answer the following questions in one line :

(1) What is meant by international trade ?

(2) What is meant by size of international trade ?

(3) What is meant by nature of international trade ?

(4) What is meant by direction of international trade ?

(5) What is meant by exchange rate ?

3. Answer the following questions in brief :

(1) Give an understanding of balance of trade.

(2) Explain the term 'size of international trade'.

(3) Give an understanding of balance of payments.

4. Give answers to the point for the following questions :

(1) State the present condition of world trade.

(2) Elucidate the differences between balance of trade and balance of payments.

(3) Write a note on exchange rate.

(4) Explain reasons for trade in short.

(5) Specify the difference between current account and capital account of balance of payments.

5. Answer the following questions in detail :

(1) State in detail the changes that have occurred in the nature of India's foreign trade over years.

(2) Explain the difference between domestic (internal) trade and international trade.

(3) State in detail the changes that have occurred in the size of India's foreign trade over years.

(4) State in detail the changes that have occurred in the direction India's foreign trade over years.

(5) Give the meaning, types, accounts and factors influencing balance of payments.

GLOSSARY

Trade	:	Trade means a commercial (business) activity which involves exchange of goods, services, resources, capital, technology, know - how, intellectual property etc. In other words, trade is an activity in which such goods are exchanged for earning profit.
Nature of Trade	:	Nature of international trade means such special features and aspects of trade of which gives it a unique identity from other activities. The nature of international trade is determined by the circumstances affecting trade, policies and laws governing trade.
Nature of Imports-Exports	:	Nature of imports and exports means composition of trade, that is, the items of merchandise imports and exports.
Size of Trade	:	In simple terms, size of foreign trade means, the total value and volume of merchandise imports and exports of a country.
Direction of Trade	:	Direction of foreign trade means the trade relations of a nation with various countries in different regions of the world.
Balance of Trade	:	Sum total of value of merchandise imports and merchandise exports in the statement of trade accounts of a country during a year.
Balance of Payments	:	An accounting statement showing the value of imports and exports of tangible (visible) and intangible (invisible) goods during a year.
Exchange Rate	:	The rate at which the currency of one country can be converted into currency of another country is called exchange rate or exchange rate is the price of a foreign currency in terms of domestic currency.
Traditional Exports	:	The items of exports which dominated the total exports of a country for a long period of time and export items produced by the traditional industries of a country are called traditional exports.
Developmental Imports	:	Imports of goods like capital, technology etc. by a developing country to give a boost to her development process are called developmental imports.
Maintenance Imports	:	Imports of spare parts, know-how, intermediate goods, petrol, energy goods which are made in order to maintain and sustain the process of industrialization and development undertaken by developing countries are called maintenance imports.

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