

The background is a collage of economic and business-related images. It includes a large blue map of India, a cargo ship with colorful containers, a city skyline with skyscrapers, a bar chart, a line graph with a red downward-sloping line, a man in a hat, and various data points and numbers. The overall theme is global trade and economics.

12th Economics

Chapter 9: Foreign Trade

GSEB

Amit Academy

SIZE OF INTERNATIONAL TRADE

Total Value & Volume
of Imports and Exports



The size of international trade
increases when:

1.

Import & Export
Values Increase



2.

Trade Share in
National Income Grows



3.

Share in World
Trade Rises



INTERNAL TRADE & INTERNATIONAL TRADE

1.

Internal Trade:

The activity of trade that takes place within the geographical boundary of a nation is called trade.



2.

International Trade:

The activity of trade that takes place outside a nation's geographical boundaries is called international trade.



BALANCE OF TRADE & BALANCE OF PAYMENT

1.

Balance of Trade:

Balance of trade is the difference between the value of a country's exports and the value of its imports for a given period.



2.

Balance of Payment:

An accounting statement showing the value of imports and exports of tangible and intangible goods during a given year.



FAVOURABLE & UNFAVOURABLE BALANCE OF TRADE

1. Favourable Balance of Trade:

When the value of a country's exports is more than its imports, it is called a favourable balance of trade.

- a) It shows that the country is earning more foreign exchange than it is spending.
- b) Also called Trade Surplus.



2. Unfavourable Balance of Trade:

When the value of a country's imports is more than its exports, it is called an unfavourable balance of trade.

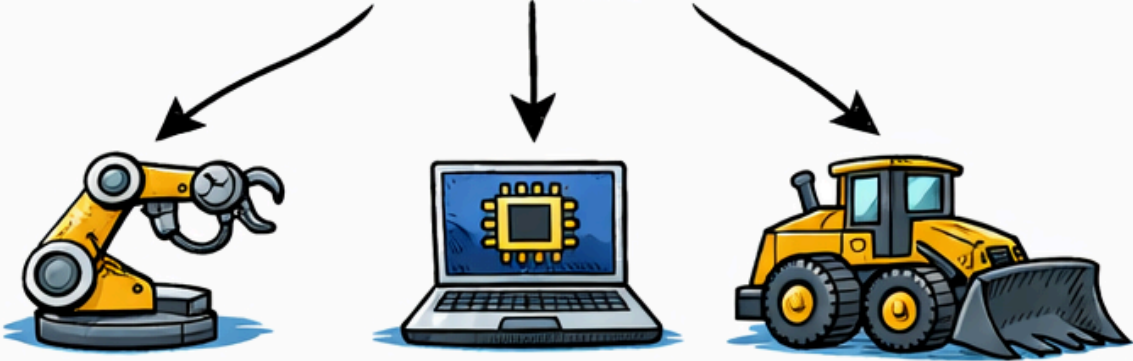
- a) It shows that the country is spending more foreign exchange than it is earning.
- b) Also called Trade Deficit.



DEVELOPMENTAL IMPORTS vs. MAINTENANCE IMPORTS

1. DEVELOPMENTAL IMPORTS

Growth & Development



Machinery → Technology → Heavy Equipment



Raw Materials

2. Maintenance Imports

Daily Needs



Petrol → Medicines → Fertilisers



Food Grains → Spare Parts

BALANCE OF TRADE IS A PART OF THE BALANCE OF PAYMENTS

1. BoT includes only goods:

It records exports and imports of goods only



2. BoP includes everything:

It records goods, services, income, transfers, and investments.



3. So, BoT is just one part of BoP:

BoT comes under the current account of BoP:



3. BoT comes under the current account of BoP



DIFFERENCE BETWEEN BALANCE OF TRADE AND BALANCE OF PAYMENTS

BASIS

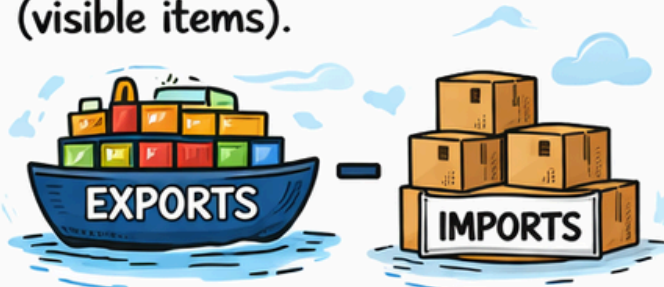
BALANCE OF TRADE (BoT)

BALANCE OF PAYMENTS (BoP)

1. Meaning



Difference between exports and imports of goods only (visible items).



Record of all economic transactions with the rest of the world (goods, services, income, transfers, capital).



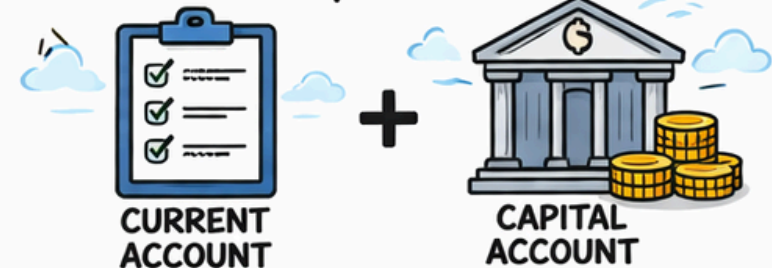
2. Scope



Narrow concept – includes only merchandise trade.



Broad concept – includes current account and capital account.



DIVISION OF LABOUR & SPECIALISATION

1. Labour Productivity & Availability in Each Country



2. Division of Labour & Specialise in Different Countries

Differences Exist Between Countries in Division of Labour & Specialisation



2. Entrepreneurial Efficiency

4. More Efficient Countries Specialise in Production



Efficient at Producing Goods

Efficient at Producing Services

Imports Goods & Services / They Cannot Produce Efficiently

Domestic Trade vs Foreign Trade

1. Scale



Within One Country

1. Scale



Between Countries

2. Currency



Same Currency

2. Currency



Different Currencies

3. Language & Culture



Same & Easy

3. Different & Difficult



Different & Difficult

4. Transport Cost



Low Cost

4. High Cost



High Cost

5. Competition



Less Competition

5. More Competition



More Competition

6. Consumer Needs



Easy to Understand

6. Hard to Understand



Hard to Understand

INDIA'S DIRECTION OF FOREIGN TRADE

- Countries with which India trades (Buys & Sells Goods)

1. Before Independence

- ▶ Most of India's Trade Was with England



2. After Independence



• England

- Share in imports reduced over time
- Example: About 19% in 1960-61



• USA

- Became an important trade partner
- Example: About 29% imports in 1960-61



• OPEC Countries

- Imports increased because India needs petroleum for development

3. After Independence



- Most of India's Trade Was with England

3. Recent Trend

- Trade with old partners (England, USA, OPEC, Russia) decreased gradually
- Trade with Developing Regions Like:
 - East Asia
 - Central Asia
 - Africa



East Asia → Central Asia → Africa

REASONS FOR INTERNATIONAL TRADE

1. DIFFERENCE IN RESOURCES

Land, Labour, Capital



Countries Have Different Resources

2. COST OF PRODUCTION



Buy From Cheaper Country

5. NEED FOR SPECIALISATION SUPPORT



Help to Produce Goods

3. TECHNOLOGICAL DIFFERENCES



Advanced vs Basic Tech

4. DIVISION OF LABOUR & SPECIALISATION



Focus on What They Do Best

EXCHANGE RATE

- The exchange rate is a price of one country's currency in terms of another country's currency.
- It shows how much money you need to exchange to get another country's currency.
- It is important for buying and selling goods between countries.



WHY IT MATTERS

If Rupee Becomes Weaker (Depreciates)

$$\$1 = ₹80 \rightarrow ₹90$$



- You now pay more rupees for the same dollar $₹900$
- Imports become expensive (like petrol, iPhones)
- Exports increase because Indian goods become cheaper for foreigners.



IF RUPEE MATTERS

If Rupee Becomes Stronger (Appreciates)

$$\$1 = ₹80 \rightarrow ₹70$$

- You pay fewer rupees for a dollar
- Imports become cheaper
- Exports decrease because Indian goods become costlier abroad.



DIFFERENCE

CURRENT ACCOUNT


CAPITAL ACCOUNT

1 


- Shows the country's income and spending 

Shows the country's assets and investments 

2 

- Includes trade in goods and services
- Covers exports and imports 

Includes foreign investment and loans

Covers buying and selling of assets 


3 

- Includes income (like interest, profit) and transfers 

Includes FDI, portfolio investment, and government borrowing 

4 

- Records flow of money from trade

$\$1 = ₹80 \rightarrow ₹90$ 

- Records flow of money from trade

Records flow of money from investments

$\$1 = ₹80 \rightarrow ₹70$ 

Records flow of money from investments

FACTORS AFFECTING THE BALANCE OF PAYMENTS

1

Exchange Rate



- ✓ Value of one currency vs another
- Currency falls → Exports cheaper ↑
- Imports become expensive ↓

2

Prices of Tradable Goods



- ✓ Domestic goods cheaper → Exports ↑
- ✓ Foreign goods cheaper → Imports ↑
- Directly impacts BoP

3

Variety and Quality of Goods



- ✓ Better quality & more variety attract foreign buyers
- Higher exports → Balance of payments improves

4

Inevitable Imports



- Essential items: petroleum, medicines, fertilisers, machinery
- ✓ Must be imported even if high
- ✓ May cause BoP deficit

5

Legal Restrictions on Trade



- ✓ Policies like tariffs, quotas, import duties, export restrictions
- ✓ Control import & export volumes
- ✓ Can improve or worsen BoP

FACTORS AFFECTING THE NATURE OF INTERNATIONAL TRADE

1. LESS MOBILITY OF FACTORS OF PRODUCTION



- Labour, Capital & Entrepreneurs Don't Move Easily
- Due to Laws, Culture, Restrictions
- Land Cannot Move

2. TRADE IN VARIETY OF GOODS



- Different Goods Based on Needs & Lifestyle
- Demand Depends on Resources, Living Conditions

3. MORE CHALLENGING

International Trade is Harder Due to:

你好!
Hello!



- Language
- Culture
- Habits & tastes

- International Trade is Harder Due to:
 - Language
 - Culture
 - Habits and tastes

TYPES & ACCOUNTS OF BALANCE OF PAYMENTS

- ➔ Balance of Payments (BOP) is an accounting statement that shows all the receipts and payments of a country with the rest of the world over a year.
- ➔ It includes both visible (goods) and invisible (services) items.



Types of Balance of Payments

1 Balanced Balance of Payments

When the value of receipts (credit side) is equal to the value of payments (debit side), the balance of payments is said to be balanced.

2 Unbalanced Balance of Payments

- When receipts do not equal payments, the balance of payments is out of balance.

- Surplus:



CHEAPER EXPORTS



EXPENSIVE IMPORTS

Accounts of Balance of Payments

1 Current Account

- It records:
 - Trade in goods (visible items)
 - Trade in services (invisible items)



2 Capital Account

- It records:
 - Investments (shares, bonds, etc.)
 - Loans and borrowings
 - Transactions in assets like gold and property.



PETROLEUM MEDICINES

LOANS AND BORROWINGS