Internal and International Trade Balance of Trade and Balance of Payments

BCA Sixth Semester

Internal and International Trade

- International trade is also called a “Foreign Trade”. International trade is the trade that takes place between two or more countries. Foreign trade involves the transfer of goods from one country to other country. The seller and buyer of the goods are from different countries.

- Buying and selling of goods and services within the boundaries of a nation are referred as internal trade or domestic trade or national trade or home trade.

Differences

Internal Trade

1. Meaning: Domestic business refers to business transactions transacted within the geographical boundaries of a country.
2. Participations: people/ organizations within the country participate in business activities.

International Trade

1. Meaning: International business refers to the business transactions transacted beyond the boundaries of a country.
2. Participations: People/ organizations outside the country participate in business activities.

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Internal Trade

3. Mobility of Factors of Production:

The factors of production like capital, technology, material etc. move freely within the boundaries of the country.

4. Nature of consumers: Consumers are relatively homogeneous in nature in terms of culture, behavior, taste, preferences, legal system, customs and practices etc.

International Trade

3. Mobility of Factors of Production: The factors of production move across the boundaries of the country.

4. Nature of Consumers: Consumers are relatively heterogeneous in nature in terms of culture, behavior, taste, preferences, legal system, customs and practices etc.

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Internal Trade

5. Business System: Domestic business is governed by the rules, laws, policies taxation system of a single country.

6. Currency Used: Domestic business transactions are settled by local currency of a country.

7. Mode of Transport: The goods involved in domestic business are mainly transported by roadways and railways.

International Trade

5. Business System: It is governed by rules, laws, and policies, tariffs and quotas etc. of multiple countries.

6. Currency Used: International business/trade transactions are settled by foreign currencies.

7. Mode of Transport: The goods involved in international business is mainly transported by water and railways.

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Internal Trade	International Trade
8. Risk: relatively less risk	8. Risk: Relatively high risk due to long distance, political condition and foreign exchange value.
9. Scope of Market: Scope of market is limited to national boundaries.	9. Scope of Market: wide scope
10. Payment of Excise Duty: relatively less excise duty	10. Payment of Excise Duty: relatively high excise duty

Balance of Trade

- Balance of trade (BOT) is the difference between the value of a country's imports and exports for a given period and is the largest component of a country's balance of payments (BOP).
- A country that imports more goods and services than it exports in terms of value has a trade deficit while a country that exports more goods and services than it imports has a trade surplus.
- The formula for calculating the Balance of Trade can be simplified as the total value of exports minus the total value of its imports. Economists use the Balance of Trade to measure the relative strength of a country's economy. ***Balance of Trade = X – M = 0***

Balance of Payment

"Balance of payment is defined as the systematic record of all the economic transactions concerning goods, services and capital flow between its residents and residents of foreign country". Kindle Berger

"Balance of payment is a summary of a country's transactions involving payments, and receipts of foreign exchange". R. G. Lipsey and K. A. Chrystal

Features of Balance of payment

- It is the systematic record of all the economic transactions between one country and the rest of the world.
- It includes all the transactions: visible and invisible.
- It is the annual statement.
- It adopts a double book keeping system. It has two sides: credit and debit side. Receipts are recorded on the credit side and payments on the debit side.
- In the accounting sense, total credits and total debits in the balance of payment statement always balance.
- If the receipts is greater than payments, it is surplus in the balance of payments and when payments are greater than receipts, there is deficit in the balance of payment.

Components of Balance of Payments

- Current Account: account of export and import of goods and services, expense on travels, transport and communication, payment of premium to the insurance companies, income received from investment, net remittance and transfer etc.
- Capital Account: Related to the transactions of capital. Borrowing and lending of capital, repayment of capital, purchase and sale of foreign securities, etc.

  Foreign aid, debt forgiveness and migrants transfer
- Cash Account: Cash account is the record of foreign exchange reserve. When current and capital accounts are positive, the cash reserve of foreign exchange increases but when there is deficit in current and capital accounts, the foreign currency reserve decreases.

Differences between Balance of Payment and Balance of Trade

Balance of Trade	Balance of Payment
1. Meaning: BOT can be defined as the net balance of export and import of goods in a given period of time.	1. Meaning: BOP is the sum total of a balance of trade the balance of services, the balance of capital account an transfer.
2. Net Effect: The net effect of balance of trade is either positive, negative or zero.	2. Net Effect: The net effect of the balance of payments is always zero.
3. Transfer: Capital and unilateral transfers are not included in the balance of trade.	3. Transfer: Capital and unilateral transfers are included in the balance of payment.