

# UNIT VII TRADE

## CHAPTER

# 22

## TYPES OF TRADE



### Learning Objectives

To enable the students to

- i. understand the meaning of trade
- ii. explain the features of trade
- iii. explain the different types of trade

### Introduction

In continuation to the business finance dealt in the previous chapter, this chapter will present details about types of trade. Under 'barter system' in olden days goods were exchanged for goods. After the invention of money as a medium of exchange, all purchases are made in exchange of money. Similarly sale transactions are possible in exchange of money. The producers producing the goods in large quantities find it difficult to sell the goods directly to



the scattered consumers. Trade connects producers and consumers and enables them to sell and purchase from wherever they are.

### 22.01 Trade - Meaning

The buying and selling of goods and services consists of trade. The essence of trade is to make goods and services available to those persons who need them and are able and willing to pay for them. Trade is conducted in order to earn profit. Trade acts as an intermediary in the exchange of commodities between the producer and consumer.

### Classification of Trade

On the basis of geographical location of buyers and sellers, trade can be broadly classified into two categories;

- (i) Internal trade and
- (ii) External trade

### Internal Trade – Meaning

Buying and selling of goods and services within the boundaries of a nation are called internal trade. It takes place between buyers and sellers in the same locality, village, town or city or in different states, but definitely within the same country. Internal trade is also called domestic trade or home trade.

## 22.02 Features of Internal Trade

The following are the features of internal trade

- a. The buying and selling of goods takes place within the boundaries of the same country.
- b. Payment for goods and services is made in the currency of the home country.
- c. It involves transactions between the producers, consumers and the middlemen.
- d. It consists of a distribution network of middlemen and agencies engaged in exchange of goods and services.
- e. In home trade the risk of transportation is very less when compared to the foreign trade.
- f. In home trade the laws prevailing in that country only have to be followed.
- g. The aim of home trade is to provide the goods and services economically.
- h. The goods must be a part of domestic production.
- i. Goods must be purchased from an individual or a firm established within a country.
- j. Goods can be delivered using locally available modes of transport.
- k. It does not involve any custom/import duty, but buyers need to pay the taxes to the Government.

## Types of Internal Trade

Home trade consists of two main subdivisions namely

1. Wholesale trade and 2. Retail trade

## Wholesale Trade

“Purchase of goods in bulk from the manufacturers and selling them in smaller quantities to other intermediaries” is known as wholesale trade.

## Retail Trade

Retail trade deals with the distribution of goods in small quantities to the consumers.

## 22.03 Foreign Trade - Meaning

Foreign trade is a trade between a seller and buyer of different countries. It involves the exchange of goods and services of one country with another country. Mostly shipping and air transports are used for carriage of goods in international trade. The currencies of trading nations and commonly agreeable currency if any to both may be used in the said international trade.

E.g., Petrol and Aeroplanes.

## Types of Foreign Trade

### A. Import Trade

Import trade means buying goods from a foreign country for domestic use. Example. India imports petroleum products from Gulf Countries. India imports machinery, equipment, materials etc. It is necessary to speed-up industrialization, to meet consumer demands and to improve standard of living.



## B. Export Trade

Export trade means the sale of domestic goods to foreign countries.

### Examples:

1. Export of Iron ore from India to Japan
2. Selling of Tea from India to England.
3. Export of jasmine flowers from Madurai to Singapore

Export trade is necessary to sell domestic surplus goods, to make better utilization of resources, to earn foreign exchange, to increase national income, to generate employment and to increase Government revenue

### India's Important Export and Import Items

Export items:	Import items:
1. Petroleum products	1. Mineral fuels including oil
2. Jewelry	2. Gem, precious metals
3. Automobile	3. Electrical machinery and equipments
4. Bio-chemicals	4. Machinery including computers
5. Pharmaceuticals	5. Organic chemicals



Export trade

### Success Story



One of the famous Indian women entrepreneurs is Indra Nooyi. She was born in Chennai and had her bachelor's degree in Madras Christian College.

Master's Degree in Public Management from Yale University, Masters in Finance and Marketing from IIM, Kolkata. Occupation: Joined PepsiCo in 1994 and became CFO in 2001. Earlier she held senior executive positions in Motorola and Asea Brown Boveri. She was product manager at Johnson & Johnson and then textile firm Mettur Beardsell. Awarded Padma Bushan for her business achievements and being an inspiration to India's corporate leadership. She helped the company to complete 30 billion dollars worth of crucial deals within the last couple of years.

## C. Entrepot Trade

Entrepot trade means importing of goods from one country and exporting the same to foreign countries. It is also known as 'Re-export trade'.

E.g. Indian diamond merchants in Surat import uncut raw diamonds from South Africa. They cut and polish the diamonds



in their units in India and re-export them to the International Diamond Market in Amsterdam.

**Singapore, Dubai, Hongkong are the largest entrepot trade centres in the world**

Thus it can be concluded that effective transfer of possession and ownership from the producer to consumer is facilitated by trade. After learning about the types of trade, channels of distribution, wholesalers and retailers will be studied.

### Key Terms

Foreign trade    Export trade  
Import trade    Entrepot trade



### For Own Thinking

1. Student should go to nearby internal trade unit, and observe the trade activities.
2. Students should go to retail shop, and observe the trading activities.



### For Future Learning

1. In future the location of trade houses will be completely changed, where the customers place order by mobile phone or e-mail and it should be delivered at door step of the buyer.
2. In future there is no need for showrooms, displays, window decorations, etc. retail shops provide code numbers to the products and hence there is no need for retail shop. So, the students should be prepared to meet future changes.



### Case Study

Mr. Kovalan completed his M.Com., degree and proposed to start a business dealing powerloom machines. After a complete analysis, it was found that it is better to buy from foreign countries than to buy from domestic manufacturers. So what is your opinion whether to purchase from foreign countries or from domestic manufacturers.



### Exercise

#### I. Choose the Correct Answer

1. The purchase of goods from a foreign country is called-----

- a. Import
- b. Export
- c. Entrepot
- d. Re-export



2. When goods are imported for the purpose of export it is called as-----.

- a. Foreign Trade
- b. Home Trade
- c. Entrepot
- d. Trade

3. ----- acts as a connective link between the producer and the consumer.

- a. Trade
- b. Industry
- c. Commerce
- d. Business



4. The aim of home trade is -----  
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- a. To raise the standard of living
- b. To provide the essential goods and services economically
- c. To raise the national income
- d. To obtain all types of goods.

5. Internal trade can be classified into -----categories

- a. Three    b. Four
- c. Two     d. Five

#### Answers

1. a    2. c    3. a    4. b    5. c

#### II. Very Short Answer Questions

- 1. Give the meaning of Trade.
- 2. What is International Trade?

3. What is Import Trade?

4. Explain the meaning of Entrepot Trade.

#### III. Short Answer Questions

- 1. Explain the types of Internal trade.
- 2. Give three examples of India's Import and Exports items.

#### IV. Long Answer Questions

- 1. What are the features of Internal trade? (any 5)
- 2. Explain briefly the different types of Foreign Trade.

#### Reference

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