Chapter - VII

Conclusions

We are now in a position to bring together the main conclusions of our study. We have made an attempt in the foregoing pages to analyse the movements in India’s general, sectoral and commodity terms of trade since 1985-86 and assess its impact on the Indian economy. We hypothesized that a consistent improvement in India’s terms of trade during the course of study was missing and as a result the effects of terms of trade on the development of Indian economy was limited. The analysis of the foregoing pages has borne us out on both the counts.

India’s gross barter terms of trade which measures the volume index of imports as a ratio of volume index of exports remained favourable and above the base level during the period under consideration. But the pace of change was not steady. It fluctuated widely ranging between -2.4 percent and 17.1 percent. Further the improvement in gross barter terms of trade was dominated by the growth in import quantum index which increased from 182.3 in 1985-86 to 1649 in 2005-06. During the same period the export quantum index increased from 111.3 to 1005.
The net barter terms of trade which measures the unit value index of exports as a proportion of unit value index of imports also behaved favourably during the period under study. But this favourable development was also not equally spread over the whole period. India’s net barter terms of trade improved at the rate of 0.8 per annum during 1985-91. It accelerated to 2.8 percent per annum during 1991-97. But the acceleration could not be sustained. The rate of growth decelerated to 0.2 percent per annum in 1997-02. It however, picked up again to 2.7 percent per annum during 2002-06.

The increase in terms of trade reflecting capacity to import experienced a relatively stable and consistent improvement. But this was not due to the improvements in net barter terms of trade. It was expansion in export quantum that pulled up income terms of trade in most of the years and on a consistent basis. The growth in quantum index of exports was a negative figure at -2.2 percent per annum during 1997-02 against a positive growth in net barter terms of trade at 0.2 percent per annum during the same period. But this was largely due to a steep decline in export quantum index in 1997-98.

Group-wise, the gross and net barter terms of trade of food and food articles deteriorated sharply and turned negative in 1991-92, 1995-96 and 2001-02. For beverages and tobacco, the gross barter terms of
trade was favourable while the net and income terms of trade remained negative and below the base level in most of the years. In the case of mineral fuels and lubricants, the gross barter terms of trade deteriorated over the period of study excepting the years 1998-99 and 1999-2000. The net barter terms of trade was largely unfavourable in the pre-reform period and turned favourable in post-reform period. The income terms of trade registered an increasing trend during the period under consideration.

The gross barter terms of trade of manufactured goods was favourable for India in the pre-reform period but turned against in eight out of 15 years in the post-reform period. The net barter terms of trade remained largely favourable except four years in which it turned negative. The income terms of trade of manufactured goods improved and registered rising trend during the period of study.

Machinery and transport equipment largely called as engineering goods experienced favourable movement in all the three measures of terms of trade.

For chemicals and allied products the gross barter terms of trade worsened and remained below the base level excepting the years 1985-86 and 1987-88. The net barter terms of trade were adverse in 12 out of
21 years under review. The income terms of trade improved consistently.

Fluctuations in terms of trade implied limited participation of India in the share of gains from trade. The terms of trade failed to influence the course of movement in India's balance of trade and the relationship between the two remained largely negative in majority of the years under review. Further, as the gains from trade are surplus which can be used for investment, deterioration in terms of trade implied lesser quantum available for investment. The pace of development could not receive the essential support from trade.

Furthermore, a greater degree of fluctuations in the movement of unit value index of exports than the fluctuations experienced in the unit value index of imports or deterioration in net barter terms of trade had detrimental effects on foreign exchange resources. India lost 'potential' foreign exchange earnings because of relatively higher import prices.

Thus the basic contention that emerges from this study is that the fluctuations in India's terms of trade through its various effects on balance of trade, domestic prices, economic development and foreign exchange resources and distribution of global gains from trade worked as a constraint on her economic development. Our conclusion broadly supports the Prebisch-Singer doctrine.
In the interest of economic development, we should try to reduce the constraints imposed by fluctuations in India’s terms of trade. The solution to the problem of adverse net barter terms of trade is to restructure the distributional pattern of productive resources from sectors where the foreign exchange realization per unit is declining or susceptible to large fluctuations to those where the unit value realization is increasing. The solution to improve the income terms of trade is a high growth rate in export quantum. We suggest the following measures to achieve these objectives:

A. Policy of price stabilization;

B. Increase in the price elasticity of export supplies;

C. Diversification of exports towards commodities of higher value;

D. Diversification of markets;

E. Transfer of appropriate technology; and

F. Improvements in the existing international trading system.