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CHANGING TRADE STRUCTURE AND TERMS OF TRADE OF INDIA

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ABSTRACT

The gains of trade for a country are multidimensional. Trade gains are distinguished from growth gains, while growth gains maybe distinguished from welfare gains. The growth gains accrue through increased level of domestic output while welfare gains accrue through increased employment, lower prices, better quality goods and goods not being produced domestically. Gains of trade, accruing to a country, are expressed by Terms of Trade. Terms of Trade are an important indicator of export import performance of a country. It is a measure of a country's trading power and is expressed as the ratio of an index of export prices to an index of import prices. Conceptually there are three types of Terms of Trade: Net Terms of Trade, Gross Terms of Trade and Income Terms of Trade.

i. Net Terms of Trade: NTT, are calculated as follows :

$NTT = P(x) / P(y)$

Where, P = price index, x = exports, y = imports

The variables that enter into these Terms of Trade are different in one aspect or other. Thus, Net Terms of Trade capture export prices relative to import prices. If the index equals unity then the country's Terms of Trade are neutral. If it exceeds unity then exports furnish price advantage of exports to country.

ii. Gross Terms of Trade : GTT, are calculated as follows :

$GTT = Q(y) / Q(x)$

Q = Quantity imported or exported

As against Net Terms of Trade, Gross Terms of Trade capture quantitative dimension of exports relative to imports. This index overlooks both price differentials and differences of units of measurement.

iii. Income Terms Of Trade : ITT, are calculated as follows :

$ITT = [P (x) / P (y)] Q (x)$

Income Terms of Trade are relatively better index of gains of trade than Net Terms of Trade or Gross Terms of Trade, but these Terms of Trade also have a limitation in so far as it overlooks quantity of imports altogether.

Terms of Trade are directly affected by changing composition and direction of trade over a period of time. Thus, the paper attempts to analyse all the four Terms of Trade of India.

Following two objectives shall be pursued in the study:

1. *Examination of the structure and change in Terms of Trade of India since 1981. It involves, comparison of Terms of Trade in post liberalization period since 1991 with Terms of Trade before adoption of NEP ; and*

2. *Exploration of the factors that determine Terms of Trade of India.*

METHODOLOGY

Change in Terms of Trade is examined by means of t test of the difference between the means of the pre and post NEP periods. This is supplemented by the test of variances of the two periods for the evaluation of which two factor ANOVA has been used. The invariance of mean and variance has been suggested as a common sense test of stationarity of Time Series (Damodar Gujarati, 2003). This will, however, be supplemented by Auto- regression and Unit Root Test statistics. Inter relations between Terms of Trade, volume/export/import index is analysed using regression analysis.

MAIN FINDINGS

The results suggest that the exports index, influence the Income Terms of Trade more than imports index. The signs of positive substitution of import substitution policy with the Exports Led Growth strategy are thus visible through these results. Import structure is the decisive determinant of Gross Terms of Trade. Net Terms of Trade are determined by exports / imports / trade volume though they exhibit stickiness since lagged value of dependent variable influences them more than the explanatory factors. This may be explained by the fact that most goods are exported and imported on orders received in the past at prevailing price at that time.

KEYWORDS: *Terms of Trade, Net Terms of Trade, Gross Terms of Trade, Income Terms of Trade.*