

Trends in the Terms of Trade and Revealed Comparative Advantage: An Indian Experience

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This paper attempts to examine linear and exponential trend in India's terms of trade at aggregate level as well, at disaggregate level. The exponential trend in terms of trade has been examined through TSP model, as well as, through DSP model. It is observed that India did not experience deterioration in its net barter terms of trade during the period under consideration. The terms of trade is observed to be trendless for all commodity groups except beverages and tobacco and animal and vegetable oils and fats. The index of revealed comparative advantage has been estimated for each section of RITC group. The index of revealed comparative advantage has improved in case of chemicals and miscellaneous manufactured products, whereas, deterioration is observed for manufactured goods chiefly classified by materials. The negative impact of revealed comparative advantage is observed on terms of trade of a country.

Introduction

The testing of the Prebisch-Singer hypothesis has attracted the attention of many researchers. Various studies are available on the testing of the empirical validity of the Prebisch-Singer hypothesis. However, results of various studies differ significantly. There are some studies which concluded that there is a deterioration in terms of trade of primary commodities over a period of time. (Singer, H.W., 1950, Ellsworth, P.T., 1956, Aubrey, H.G., 1957, Spraos, J., 1980, Sapsford, D., 1985, Thirwall, A.P., and Bergenm, J., 1986, Grill, E.R., 1988) On the otherhand, there are some studies which concluded that there is no evidence of declining relative prices of primary commodities. (Theodore, M., 1959, Lipsey, R.E., 1963, Cuddington, J.T., and Urzua, C.M., 1989). In line with declining terms of trade of primary commodities, it was believed that the developing countries are experiencing deterioration in their terms of trade. Studies are available on the trend in the net barter terms of trade of different countries of world which concluded that developing countries are experiencing deterioration in terms of trade. (Bird, G., 1979). The study by Sarkar and Singer (Sarkar, P., and Singer, H.W., 1990) has examined terms of trade of exports of manufactured goods of developing countries relative to those of developed countries. It shows that the controversial Prebisch-Singer hypothesis holds not only for exchange of primary products of less developed countries for manufactured products of developed countries but also for the exchange of less developed countries' manufactures for developed countries' manufactures. As far as India is concerned a study by DaCosta and Trivedi (DaCosta, G.C., and Trivedi, Pushpa, 1983) estimated net barter terms of trade through Paasche

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