

# **GROWTH AND TERMS OF TRADE**

**A Dissertation  
Submitted To The  
UNIVERSITY OF POONA**

**For The Degree Of  
M. PHIL., IN ECONOMICS**

*By*

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**Gokhale Institute of Politics and Economics  
PUNE - 411 004.**

**MARCH 1981**

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## PREFACE

This dissertation is a brief survey of the literature concerning 'Growth and Terms of Trade'. Trade plays a prominent role in the growth of LDCs of Latin America, Africa and Asia, which are characterized by dominant export sector and are facing serious balance of payment difficulties.

The school headed by Raul Prebisch has analysed the situation prevailing in these countries under the framework of economic dependence. The factors responsible for this situation are foreign trade and investment. Prebisch brings out the importance of trade in the process of transfer of productivity gains from the developing to developed countries and has coined the term 'centre-periphery'. In his analysis, the deterioration of terms of trade (a low income elasticity of demand being one of the reasons) is the indicator of this process of transfer. This part of Prebisch's analysis finds its justification in the neo-classical framework of 'growth and terms of trade' advanced by J.R. Hicks and H.G. Johnson. The concentration of productivity gains in the existing prominent export sector coupled with low income elasticity of demand for the products results in the ultra-pro-trade biased growth in the economy. The net effect is the deterioration of terms of trade.

Most of the critiques of Prebisch's analysis have concentrated their attention only on the secular movement of terms of trade between the primary and manufactured goods and have tried to falsify this argument. The main concern of Prebisch's analysis is not to prove the deterioration of terms of trade but to show what type of growth a country is experiencing and the mode of appropriation of surplus in the centre-periphery system.

Both UNCTAD and World Bank data show the downward movements in the terms of trade of developing countries in the period 1951-1973. Under such a situation the only solution for the developing countries besides import substitution, trade liberalization policies and cartel organization, is to find the 'real comparative advantage' both in production as well as in consumption since the comparative advantage itself is shifting.

I have summarized this argument in the four chapters. Chapter 1 deals with Prebisch's thesis on secular deterioration of terms of trade. Chapter 2 analyses the various types of growth effects on the terms of trade. In Chapter 3 the analysis regarding the movement of terms of trade between primary and manufactured product is presented. Chapter 4 shows the slow growth of exports, recently experienced by LDCs.

For this work I am highly grateful to my guide, Dr. B.G. Bapat, who gave me a clear insight into the problem.

(iii)

I am thankful to Prof. N. Rath and Prof. B.S.R. Rao for their advice. My sincere thanks are extended to Mr. Inamdar, who has typed this dissertation neatly and carefully. Above all I am thankful to all my friends and the staff of Gokhale Institute for the help and inspiration they provided.

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Santosh Thirani

March 1981.

## CONTENTS

	<u>Page</u>
PREFACE.....	(i)
LIST OF TABLES.....	(vii)

### Chapter

<b>1</b>	TRADE LEAD GROWTH—A SECULAR DETERIORATION OF TERMS OF TRADE.....	1
	1.1 Secular Deterioration of Terms of Trade.....	2
	1.1.1 British School and the Secular Deterioration.....	2
	1.1.2 Secular Deterioration— Prebisch-Singer Version.....	7 ✓
	1.2 Gunnar Myrdal on Widening International Inequalities....	16 ✓
	1.3 Nurkse's Thesis on Trade as 'Engine of Growth'.....	18 ✓
<b>2</b>	ECONOMIC GROWTH AND TERMS OF TRADE.....	21
	2.1 Hicks on Growth and Trade.....	21
	2.2 Income Effect and Terms of Trade.....	24
	2.3 Production and Consumption Effects of Economic Growth....	27
	2.3.1 Effects of Factor Accumulation on Terms of Trade.....	34
	2.3.2 Effects of Technological Progress and Growth Biases....	36
	2.3.3 Biased Technological Progress.	37

<u>Chapter</u>		<u>Page</u>
	2.3.4 Consumption Effect of Technological Progress.....	38
	2.4 The Effect of Growth on Terms of Trade via Reciprocal Demand Curves.....	39
	2.5 Immiserizing Growth.....	45
	2.6 Effect of Growth on Terms of Trade When Both Countries Are Growing.....	46
<b>3</b>	<b>CRITIQUE OF PREBISCH-SINGER THESIS AND EMPIRICAL VERIFICATION.....</b>	<b>49</b>
	3.1 Nature of Data.....	49
	3.2 Various Analyses Dealing with Long run Movement in Terms of Trade.....	52
	3.2.1 T. Morgan's Analysis About Terms of Trade.....	52
	3.2.2 Estimates of Terms of Trade in 1960 by A. Lewis.....	56
	3.2.3 Explanation of Terms of Trade by Means of Mathematical Model.....	61
<b>4</b>	<b>RECENT EXPERIENCE ON TRADE AND DEVELOPMENT.....</b>	<b>72</b>
	4.1 Movement in the Terms of Trade (1953-1972).....	73
	4.2 Slow Growth of Exports.....	77
	4.3 Working of the Centre-Periphery System.....	79
	4.4 "Import Substitution"—Inward Looking Strategy for Development.....	80
	4.5 Shifting Comparative Advantage	84

<u>Appendix</u>		<u>Page</u>
A	CONCEPTS OF TERMS OF TRADE.....	88
B	A FORMAL MODEL OF ECONOMIC GROWTH AND INTERNATIONAL TRADE.....	94
C	SELECTED UNIT VALUE RATIOS, 1876-1948.	97
	BIBLIOGRAPHY.....	99



## LIST OF TABLES

<u>Table No.</u>		<u>Page</u>
1.1	How the Effects of Increased Productivity Are Transmitted from Centre to Periphery.....	9
2.1	Growth and Biases in Consumption.....	29
2.2	Growth and Biases in Production.....	31
2.3	The Net Effect of Production and Consumption.....	33
2.4	Effects of Economic Growth.....	39
2.5	Economic Growth and Terms of Trade.....	45
3.1	Data Covering Approximately 90 Years 1860s to 1952.....	52
3.2	Median Value of Terms of Trade.....	54
3.3	The Real Purchasing Power in Terms of Primary Products Exports.....	55
3.4	The Terms of Trade Calculated by Model III with Different Capital Coefficients	67
4.1	Comparison of World Bank and UNCTAD Indices of the Terms of Trade for Developing Countries of Primary Commodities.....	74
4.2	Growth of Merchandise Exports, by Product Category and Country Group, 1960-76 and 1976-90 (Average Annual Percentage Growth Rates, at 1975 Prices).....	78