For lower rate of growth. in contrast, international

For a large number of these items, pursuing a policy of “ self-sufficiency entails higher resource costs and delays and, consequently, a lower rate of growth. In contrast, international trade contributes to specialisation and all round reduction in resource costs of producing goods and services. By implication, it is economically preferable to pursue a policy of “ self-reliance” instead of “ self-sufficiency”.

An improvement in TTg of a country helps it in achieving this “ self-reliance” and in importing the growth-oriented items by paying for them in exports. In other words, to that extent, it can increase its imports without borrowing from abroad or receiving direct foreign investment. In recent decades, a number of countries have recorded a high rate of “ export-led growth”; that is, they have achieved higher growth rates in GDP through export promotion. Numerical Example 3: Numerical example 3 is a factual illustration in which income terms of trade for India have been compiled for some selected years with base year 1978-79 = 100. It shall be noticed that in the year 1978-79, both net barter and gross barter terms of trade registered a fall of 20. 0% and 14. 2% respectively over the year 1969-70.

Similarly, in the year 2001-02, the two measures registered a decline of9. 1%and 7. 8% respectively over the position in 1995-96. However, the picture presented by income terms of trade is a totally different one. There, we find a substantial increase in all the years over figures in the preceding columns. This means that the combined impact of (a) changes in export and import prices, and (b) the increase in the volume of exports was one of substantial increase in Indian economy’s capacity to import (on account of increased exports). Data show that, in 2001-02, this capacity to import, as measured by income terms of trade, had grown to 10.

7 times its capacity in 1969-70 (since 743. 2 / 69. 6 = 10. 7). In contrast, the corresponding figures for net and gross barter terms of trade were respectively 1. 003 and 1.

06 only. In other words, income terms of trade measure is able to capture the fact that, during 1969-2002, the Indian economy was able to substantially increase its capacity to import not by a relative change in the prices of its imports and exports, but by an increase in the volume of its export. Policy Implication: It follows that for accelerating economic growth, a country should pursue a policy of improving its income terms of trade even if, in the process, it has to accept some deterioration in its net barter and/or gross barter terms of trade.' It is also noteworthy that, in practice, it is more difficult to improve net barter and gross barter terms of trade than income terms of trade. Additional Questions: However, it would be wrong for a developing country to base its growth policy on only improving its income terms of trade and ignore other relevant questions like the following: Which productive resources are being used by the exports sector? Is it economically more productive to reallocate some of these resources to infrastructure and other growth-oriented industries? Is import-dependence of domestic industries within acceptable limits? What should be the role of foreign loans and foreign direct investment? And so on.