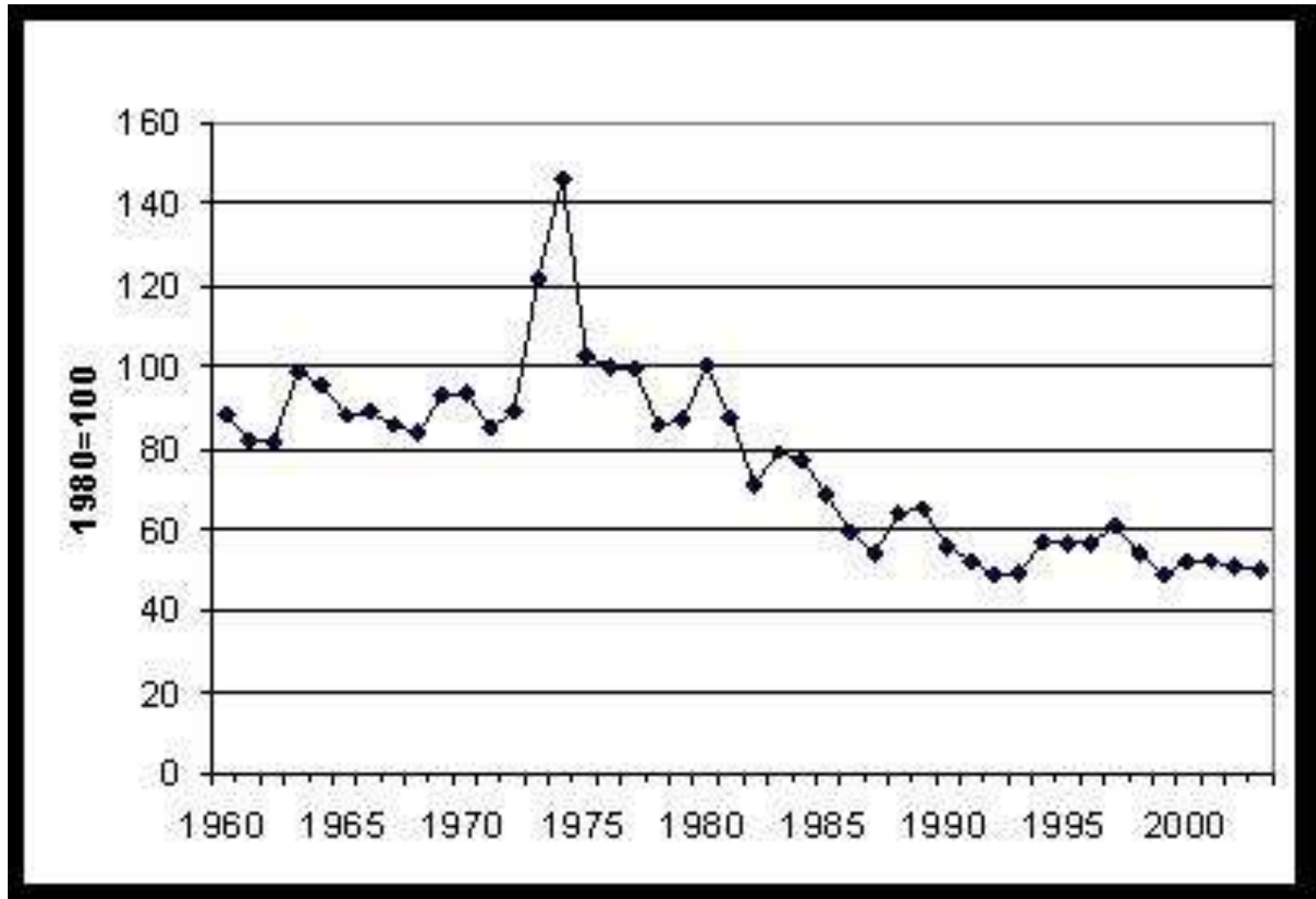


Hans Singer on the Terms of Trade

Raphael Kaplinsky
The Open University

Manufactures-commodities terms of trade



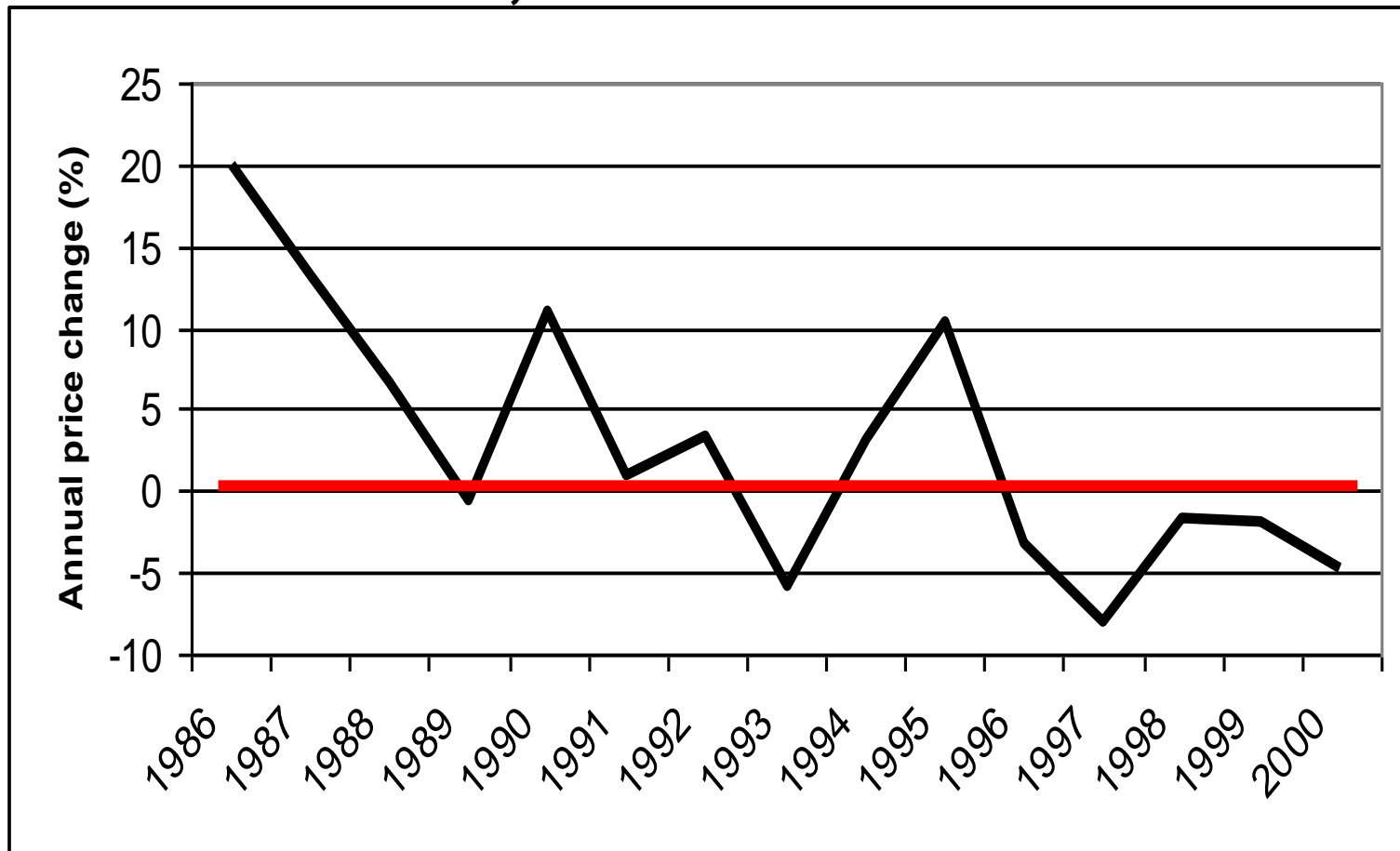
Terms of trade decline

- The prevailing post WW2 wisdom
- But:
 - Commodities are inputs into manufactures
 - Demand low for commodities as incomes rise
 - Demand for commodities falls as their price increases
 - Synthetic substitute for natural materials
 - Low innovation barriers to entry

And then one other “Singer insight” ...

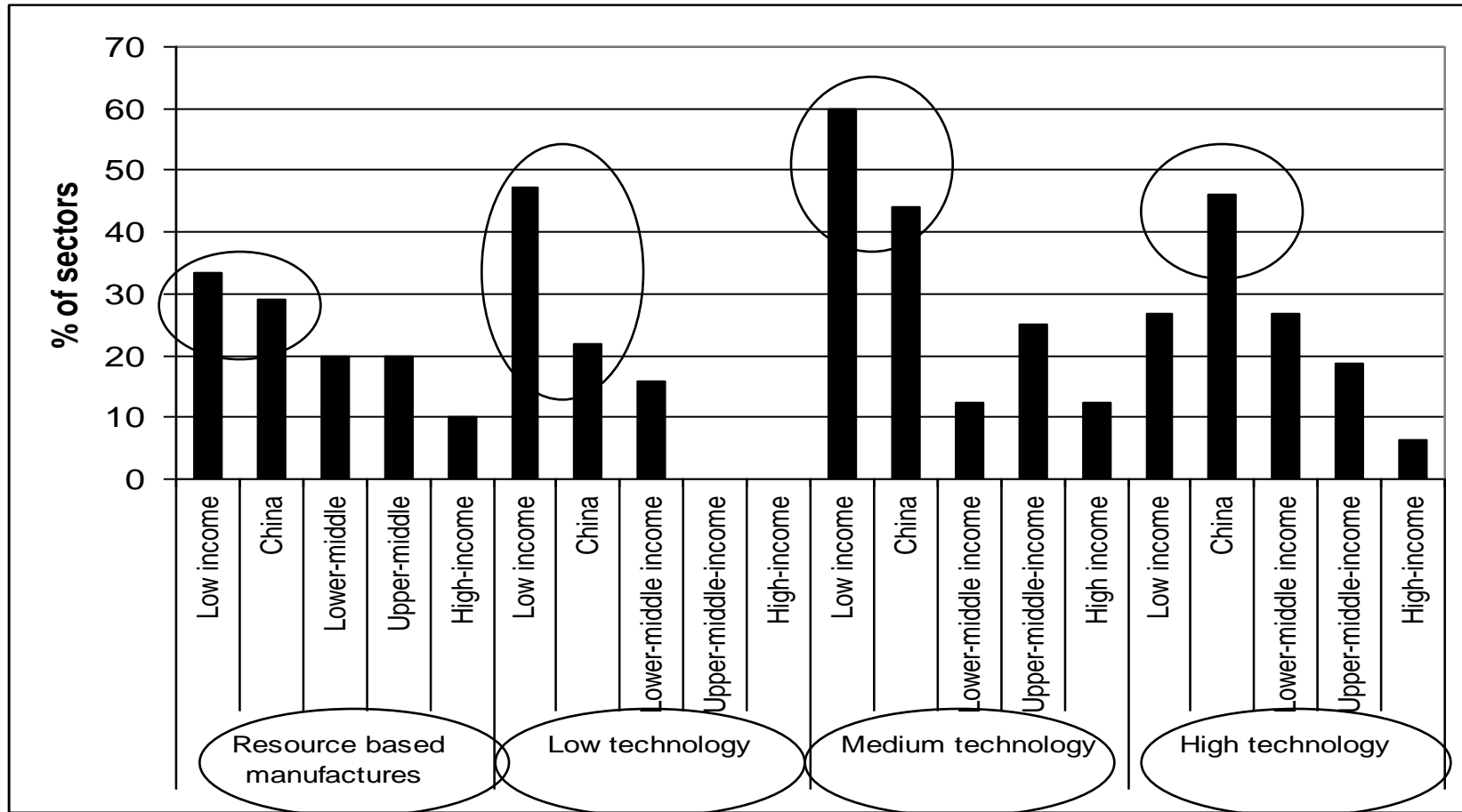
- Labour markets
 - Cost-plus pricing in high income countries
 - Reserve army of labour in low income economies
- So **manufactures vs commodities** really a surrogate for **high income vs low income**

World Manufacturing Export Price, 1986-2000



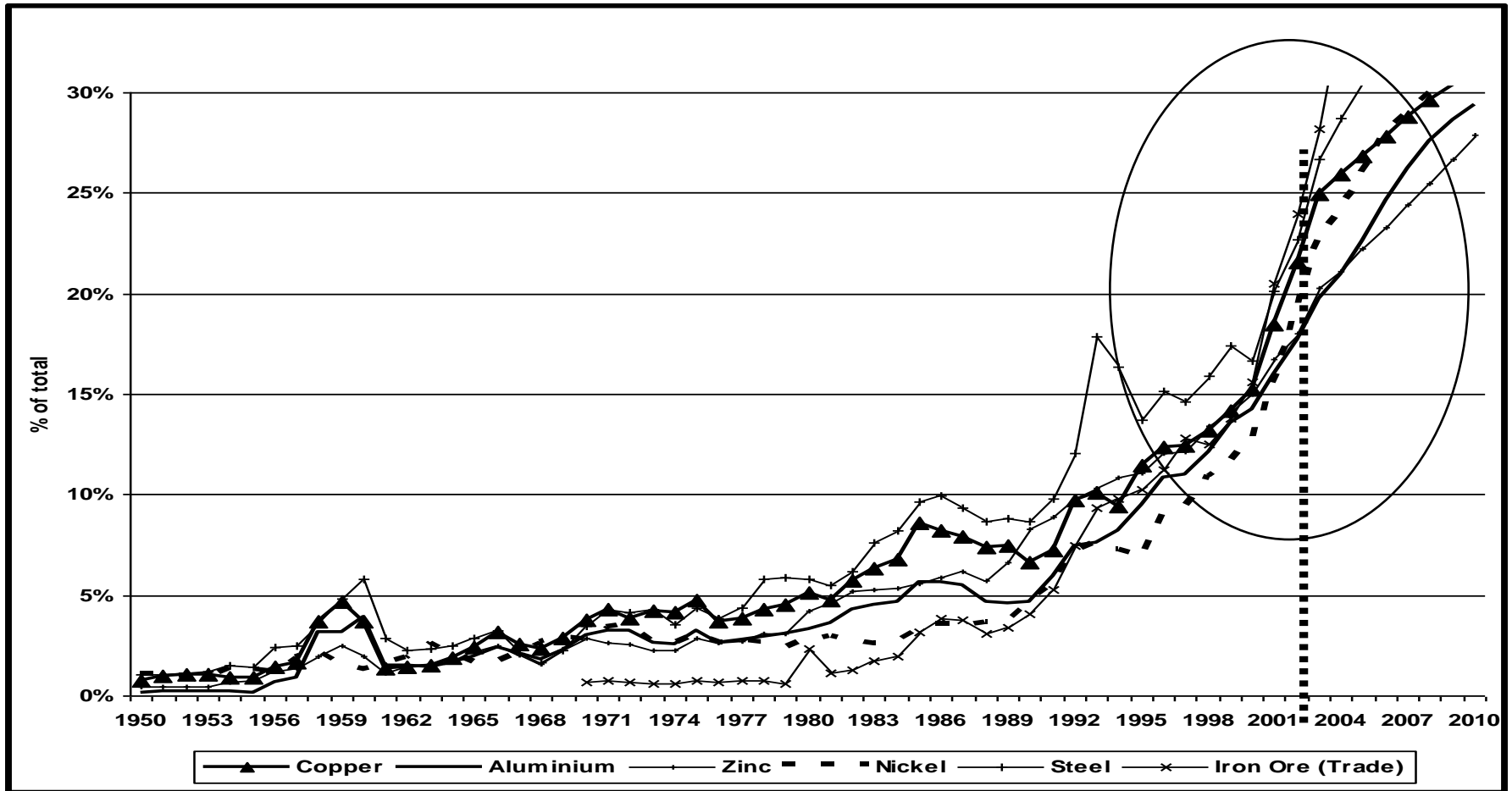
IMF, World Economic Outlook Database

Caught between a rock and a hard place

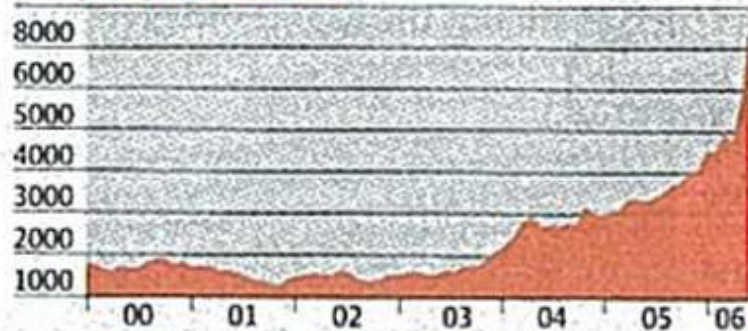


Percentage of sectors with negative price trends, 1988/9-2000/2001 by technological intensity and country-grouping

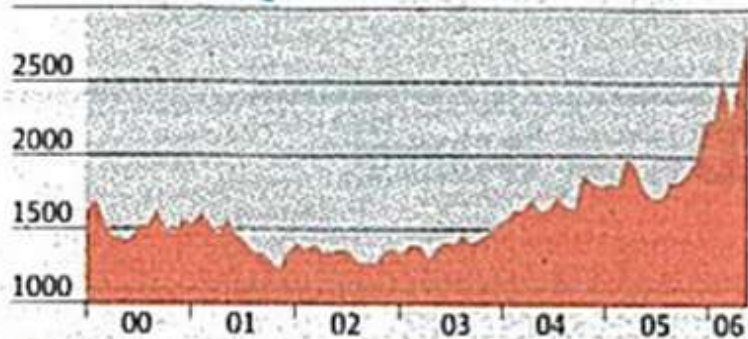
Actual and projected global share of China's consumption of base metals



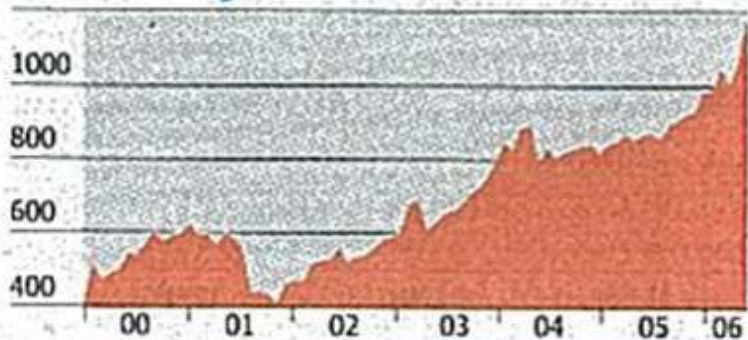
Copper \$ per tonne



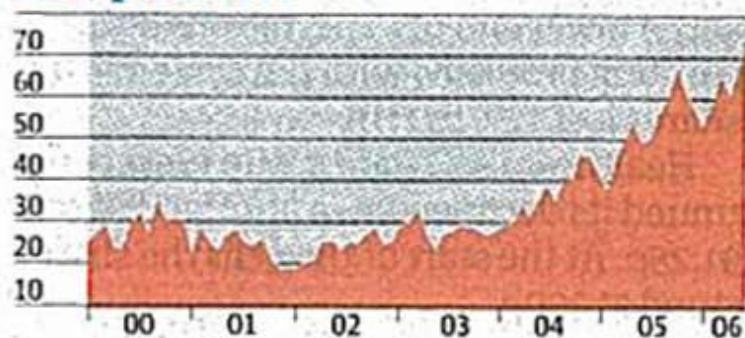
Aluminium \$ per tonne



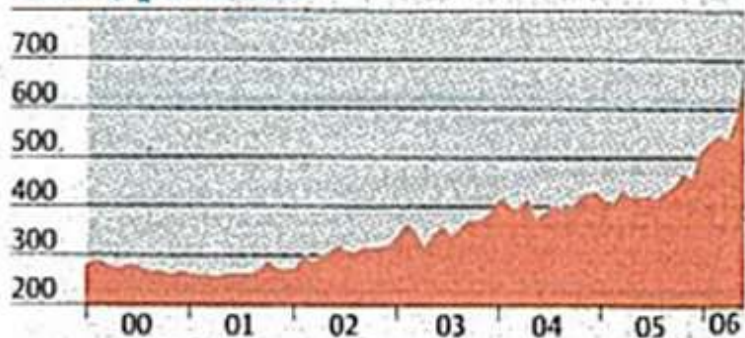
Platinum \$ per ounce



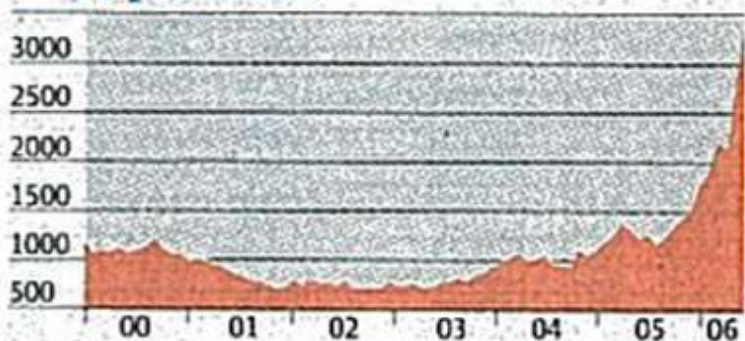
Oil \$ per barrel



Gold \$ per ounce



Zinc \$ per tonne



SOURCE: THE ECONOMIST, IMF, THOMSON FINANCIAL DATASTREAM

So what...

- Industrialise?
 - or innovate in all sectors?
- Impacts on income distribution
 - Hard commodities are capital intensive
 - Commodities are foreign owned
 - Who gains from higher prices?
- Commodities come with war and corruption
- High commodity prices create problems for other sectors