Hans Singer on the Terms of Trade

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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

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
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