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Prices, Earnings and Terms of Trade

by Dr Siegfried Böttcher, Bonn *

In spite of great common efforts the gap between developing countries (LDCs) and developed countries has become larger during the last decade, too. The GNP of all developing countries at present amounts to less than \$ 400 bn and that of the industrialised countries to more than \$ 2,000 bn.

It is true that the target of the first development decade could be exceeded since the real GNP of the developing countries grew by almost 6 p.c. (as against about 5 p.c. in the case of the developed countries). Moreover, production of processed goods, too, showing an average increase of 7.3 p.c. p.a. increased more vigorously than in the industrialised countries (5.6 p.c. p.a.) Exports of processed goods of the developing countries even rose by 11.6 p.c. p.a. in the period between 1960 and 1968; this rate of increase is two and a half times larger than the growth rate of basic materials' exports of the developing countries.

Table 1
Primary Commodity Prices 1960–1970
(1963 = 100)

Year	Food	Agricultural Non-Food	Ores and Metals	Total (excl. petro- leum)	Total (incl. petro- leum)
1960	89	116	104	100	102
1965	92	101	154	106	102
1966	93	98	166	108	102
1967	95	92	135	102	99
1968	95	94	140	103	100
1969	104	102	159	113	106
First half of 1970	107	101	173	118	109

Source: IBRD, Commodity Price Trends, 1970.

In 1968, however, only about 15 p.c. of total exports of the developing countries amounting to \$ 44.1 bn were accounted for by processed goods, whereas 85 p.c. still were accounted for by basic materials (foodstuffs, industrial raw materials, ores and metals and fuels). As far as the development and diversification of their economy is concerned the developing countries will therefore continue to depend in particular on earnings from the more slowly growing exports of basic materials.

* Federal Ministry of Economics.

In view of this fact and the frequent fluctuations of some prices of basic materials it seems necessary to take into consideration the development of prices, quantities, earnings and terms of trade of the developing countries during the last decade in order to assess the situation of these countries.

Export Prices and Quantities Exported

During the last decade only prices of basic agricultural products showed a declining tendency. Food prices, on the other hand, rose considerably and ore and metal prices even rose very strongly. Leaving petroleum out of consideration, a total general improvement by 18 p.c. was registered in the first half of 1970 as against 1960 and by including the petroleum prices which, however, concern only few of the developing countries, an improvement by 7 p.c.

It is interesting to note that seen on the whole prices of primary commodities showed a much smaller increase than quantities exported. Up to 1969, export prices of the developing countries rose by 6 p.c.

Table 2
**Export Unit Values (Export Prices) and Quantities
Exported of Developing and
Industrialised Countries 1960–1970**
(1963 = 100)

	1960	1965	1966	1967	1968	1969	First half of 1969	First half of 1970
Developing countries								
Export prices	100	103	104	103	103	106	105	109
Quantities exported	84	113	118	123	138	147	144	152
Industrialised countries								
Export prices	98	103	105	105	104	108	107	113
Quantities exported	84	120	130	137	155	172	166	185

Source: UN Monthly Bulletin, October 1970.

Compared with this the index of quantities exported by developing countries rose from 84 p.c. in 1960 to 147 p.c. in 1969. That means that in the case of most commodities the rise in export

earnings is mainly attributable to a higher export volume. As far as the developed countries are concerned the increase in quantities exported has even been more pronounced.

During the last ten years export earnings have risen steadily. Owing to the favourable economic situation prevailing in the industrialised countries the increase in export earnings was particularly pronounced in the years 1968 and 1969; this trend even continued last year, though to a less degree. Only in 1967 the rate of increase decreased considerably (with exception of the oil exporting countries of the Middle East) which was attributable to the economic recession prevailing at that time in the industrialised countries. The breakdown of growth rates of export earnings by individual regions of developing countries also shows a generally rising trend with the level varying from case to case.

Table 3
Export Earnings of LDCs 1960-1969
(in bn US\$ fob)

	1960	1966	1967	1968	1969	First half of 1969	First half of 1970
Food	8.1	10.5	10.6	11.0	.	.	.
Raw materials	7.7	8.5	7.9	8.5	.	.	.
Non-ferrous metals	1.4	2.4	2.8	2.8	.	.	.
Fuels	7.7	12.1	13.3	14.8	.	.	.
Primary commodities, total	24.9	33.5	34.6	37.1	.	.	.
Manufactures	2.5	5.2	5.7	5.9	.	.	.
Total	27.4	38.7	40.3	44.0	48.6	23.9	26.0

Source: UNCTAD, Review of International Trade and Development 1969/70, Part One; UN Monthly Bulletin of Statistics, Oct. 1970.

A breakdown by commodities also presents a predominantly favourable picture. Since the beginning of the sixties export values e.g. for cocoa, coffee, coarse grains and wheat, beef and veal, cotton as well as copper have partly risen considerably. Almost constant export values are given for sugar, fats and oils, jute and tin. Only in the case of tea, wool, hard fibres, lead and zinc as well as natural rubber (excl. 1969) export earnings have been declining.

Table 4
Annual Growth Rates of Export Earnings of LDCs by Regions 1965-1969
(per cent)

	1965	1966	1967	1968	1969	1970
Africa	6.6	8.5	1.0	16.0	.	.
Latin America	4.4	6.4	1.0	4.0	.	.
Middle East	7.6	9.5	11.0	9.0	.	.
South-East Asia	5.1	4.6	3.5	10.5	.	.
Total	5.5	7.0	3.5	9.0	12.9	9.0

Source: GATT, International Trade, 1969; International Trade in 1970 and Tendencies in 1971, Preliminary Assessment by the GATT Secretariat.

As against the base year 1960 commodity terms of trade, (export prices/import prices) of developing countries have somewhat worsened in the last decade, if petroleum prices are included. The commodity terms of trade of industrialised countries, on the other hand, have improved slightly compared to 1960. There have thus been no major changes. (In the longer view—leaving apart the strongly increased commodity prices and terms of trade of the developing countries prevailing until the middle of the fifties as a result of the Korea boom and US stockpiling purchases and the subsequent worsening—one can note a "normalisation" of the commodity terms of trade of the developing countries.)

Table 5
Export Earnings by Important Commodities of LDCs 1961-1969
(mn US\$)

	1961/63	1964/66	1967	1968	1969
Food					
Coffee	1,832	2,247	2,166	2,371	2,326
Sugar	2,069	2,093	1,954	1,963	2,010
Oils and Fats	1,040	1,135	1,022	1,033	1,033
Tea	590	570	569	536	461
Cocoa	520	533	666	750	907
Beef and Veal	208	353	314	307	—
Wheat	164	348	187	193	—
Coarse grains	274	426	520	461	—
Raw materials					
Cotton	1,292	1,424	1,288	1,418	1,337
Rubber	1,055	977	857	860	1,208
Wool	282	251	212	211	167
Jute	203	261	204	208	200
Hard fibres	165	149	91	81	83
Non-ferrous metals					
Lead	136	127	91	95	.
Zinc	142	129	114	112	.
Tin	544	521	538	536	.
Copper	1,255	1,720	1,916	2,100	.

Source: FAO Commodity Review and Outlook 1969-1970; IBRD Commodity Price Trends, 1970; UNCTAD Commodity Survey 1967 and 1969, Part III.

This general statement is confirmed by a country-wise breakdown. The IMF-Statistics e.g. contain the data on the development of average export and import prices of 21 developing countries. In 12 developing countries i.e. more than half of them average export prices have risen more strongly than import prices. In three countries the ratio between average export and import prices has almost remained stable. Only in six countries there has been a deterioration of average export prices as against import prices.

Moreover, a "secular" deterioration of the commodity terms of trade of developing countries cannot be proved. An indication of this statement is i.a. found in an estimate by the IBRD on the so-called long-term real prices for individual

commodities since the compiling of long-term series is rather difficult owing to frequently insufficient data¹.

This estimate shows that in the case of most basic materials such as coffee, fats and oils, cocoa, beef and veal, jute, copper, lead and zinc as well as tin the present price level is above the pre-war level. As against this present prices of only few basic materials such as sugar,

The main criterion for the assessment of prices of basic materials and their relation to import prices for goods from the developed countries is that the foreign exchange position and thus the development possibilities of a developing country are not primarily determined by the level of prices and the maintenance of commodity terms of trade but that, on the contrary, the level of export earnings as a whole and thus the purchasing power of exports, in terms of imports,

Table 6
Commodity Terms of Trade of Developing and Developed Countries 1948–1970
(1963 = 100)

	1948	1955	1960	1965	1966	1967	1968	1969	First half of 1969	First half of 1970	1970 prel.
Developing Countries											
— Including Petroleum	96	110	104	100	102	101	101	102	102	102	.
— Excluding Petroleum	.	.	104	102	105	103	104	107	.	.	105
Industrialised Countries	94	92	98	100	100	101	101	102	101	101	.

Source: UN Statistical Yearbook 1964, UN Monthly Bulletin of Statistics, Vol. 19 (1965), No. 4 and October 1970. International Trade in 1970 and Tendencies in 1971, Preliminary Assessment by the GATT Secretariat.

tea, cotton, rubber and wool are lower than before the Second World War.

The above mentioned commodity terms of trade or real prices, however,—if used as a yardstick for the purchasing power of exports, in terms of imports, as is often the case—have, above all, the disadvantage that only prices but not the quantities exported by the developing countries are taken into consideration. It is therefore more appropriate to base the assessment of the purchasing power of exports on income terms of trade: export price x quantity exported/import prices. This method, however, has so far been little used in international discussions and documentation.

In the sixties the development of these income terms of trade has shown a favourable trend for the developing countries.

General Appraisal

The slight fluctuations of the commodity terms of trade in the sixties neither indicate great disadvantages for the developing countries nor great advantages for the industrialised countries. The commodity terms of trade are, in addition to that, an ill-suited criterion for the development of the purchasing power of exports, in terms of imports, of developing countries, since the quantities exported are not taken into account in this connexion.

¹ In order to eliminate changes in prices in international trade commodity prices have been divided by wholesale prices of industrialised countries. In doing so it must, however, be taken into consideration that wholesale prices may not necessarily be treated equivalent to import prices of goods from industrialised countries.

are of a decisive importance. In the last years these values have been rather favourable for the developing countries. This development is mainly due to the fact that the volume of exports has shown a much larger increase than export prices. (As mentioned above, this is also true of exports of industrialised countries). Individual prices of commodities have, in addition to that, not shown a parallel but frequently an opposite development—e.g. falling cocoa prices accompanied by rising coffee prices—which resulted in a balancing effect on export earnings of some developing countries producing a large variety of goods.

Table 7
Income Terms of Trade * of LDCs 1960–1969
(1963 = 100)

	1960	1965	1966	1967	1968	1969
Export earnings	87	115	123	128	140	155
Import unit values (import prices)	99	103	103	103	102	104
Purchasing power of exports	87	111	119	124	137	149

* Purchasing power of exports.

Source: UN Monthly Bulletin, October 1970.

This favourable development of income terms of trade may, however, not conceal the fact that in view of the great development tasks to be performed and the burden of debts of the developing countries' export earnings are still to be regarded as insufficient. This situation, however, is not due to a declining trend of the commodity terms of trade of developing countries but it results from the still limited economic and exporting power of these countries.