Commodity terms of trade

A heightened international awareness of problems concerning price and other terms of international exchange between commodities and manufactures found articulate expression at the meeting of Commonwealth Heads of Government in Ottawa, August 1973. The theme was then taken up again at the United Nations General Assembly in December of that year, and at the Sixth Special Session of the General Assembly meeting in New York in April 1974. Against this background it is interesting to examine the factual record of the past decade and more, as set out in Table IV.

The estimates are calculated on the basis of f.o.b. prices for the primary commodities and c.i.f. prices for manufactures, i.e. they take account of the effects on the developing countries of freight rate changes insofar as these affect the estimates from the standpoint of developing countries. The table suggests that, between the three-year averages of 1960/62 and 1970/72, unit exports of rubber lost roughly half their purchasing power in terms of imported manufactures, and exports of tea roughly a third. There were declines of the order of 20–25 per cent for palm oil and cotton (but no decline in the apparent terms of trade for Indian cotton). For cocoa, the terms of trade fluctuated widely over this period, but without any clear declining trend. For coffee, the terms of trade were relatively unfavourable, by comparison with 1960/61, from 1967 to 1969, relatively favourable in 1970, and relatively unfavourable again in 1971 and the first half of 1972. For sugar, the overall terms of trade on their total exports held up in varying degrees in Jamaica, Guyana, Mauritius and Fiji, the different experience for the different countries no doubt reflecting the proportions of their sugar sold under the Commonwealth Sugar Agreement and United States sugar quotas on the one hand, and on the "world market" on the other hand. For copper, the only metal covered by the table, the terms of trade in relation to manufactures were generally more favourable from 1966 onwards than in the first half of the 1960s, though with a downturn in 1971 and 1972. Petroleum fell to a low point in 1970, rising thereafter to a level in the first half of 1974 more than four times the 1960–1970 average.

The figures thus confirm a deterioration of the terms of trade vis-a-vis manufactured goods, in the 1960s, for many agricultural commodities exported by developing countries, though not for all. If the examination were carried back to the early 1950s, a much greater deterioration of the terms of trade would appear. But this raises the question of the appropriateness of the early 1950s as base. In that period, prices of primary commodities were raised by influences springing from the Korean War, including United States stockpile purchases, and supply and market conditions for many primary commodities were still recovering from the disruptions caused by the Second World War.

TABLE IV Terms of trade for individual commodities exported by Commonwealth countries vis-a-vis imported manufactures

(1960–70 average = 100)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1972 (halves) I	1972 (halves) II	1973 (halves) I	1973 (halves) II	1974 (half) I
Rubber																		
Sri Lanka	149	121	105	110	102	100	108	80	68	74	92	71	50					
Malaysia	163	120	113	106	100	103	92	77	72	92	74	61	51					
General index	163	126	116	106	99	100	90	74	73	93	71	55	50	48	53	75	103	104
Tea																		
India	120	116	111	111	110	105	97	98	88	78	73	73	68					
Sri Lanka	124	119	115	111	110	106	98	90	84	78	75	77	74					
Kenya	120	117	107	109	95	98	98	98	91	88	85	82	75					
General index	127	118	118	109	109	104	98	97	79	72	76	67	61	65	59	57	50	61
Cotton																		
India	110	111	106	84	98	111	104	84	96	106	92	114	112					
Uganda	112	118	112	104	106	102	90	85	97	94	84	89	91					
Tanzania	112	111	108	106	104	102	92	93	101	91	85	86	94					
General index	109	112	108	104	101	99	91	98	107	89	86	92	91	100	83	113	173	152
Palm Oil																		
Nigeria	106	111	103	101	107	119	98	97	54	67	133	93	76					
Malaysia	115	116	105	102	110	121	106	99	70	68	97	93	72					
General index *a*					115	127	106	100	70	77	106	99	74	74	75	93	139	168
Sugar																		
Fiji	100	109	103	128	137	96	104	83	75	90	83	91	91					
Guyana	106	103	97	126	126	76	91	95	89	104	95	105	119					
Jamaica	96	97	98	135	118	90	97	100	89	94	90	89	104					
Mauritius	112	104	105	133	113	94	97	96	83	84	85	86	98					
General index	104	102	101	141	120	97	92	93	83	88	86	83	105	108	103	109	101	171
Coffee																		
Kenya	113	100	104	90	108	107	98	87	96	91	107	83	88					
Tanzania	109	99	94	95	120	107	102	89	91	87	109	94	95					
Uganda	77	71	80	96	131	97	102	105	115	103	119	118	102					
General index	108	103	95	90	112	108	103	87	89	92	113	88	96	87	106	115	103	103
Cocoa																		
Ghana	124	96	88	93	97	74	68	94	100	127	137	97	86					
Nigeria	117	89	82	89	96	66	67	99	112	134	141	102	87					
General index	112	85	78	95	86	59	84	102	122	162	111	78	88	77	100	132	188	203
Copper																		
Zambia	74	62	69	69	72	82	122	113	125	152	143	95	86					
General index	67	61	61	59	93	125	145	104	116	135	121	83	76	79	73	93	136	145
Petroleum																		
General index	118	113	110	107	101	99	96	93	91	90	85	101	108	109	107	117	146	417

a 1964–70 = 100.

Prices of most primary products turned sharply upwards in the second half of 1972 or early months of 1973, outstripping the rate of inflation in the prices of manufactured goods. The estimates in Table IV suggest that the terms of trade vis-a-vis manufactured goods were very much more favourable, for most of the commodities shown in the last quarter of 1973 and first half of 1974 than on average in the 1960s, or even at the beginning of the 1960s. Thus for cocoa the terms of trade were almost twice as favourable in the second half of 1973 and first half of 1974 as the average for the 1960s, and the improvements were not very much less great for cotton in the last quarter of 1973 and first quarter of 1974, and for sugar and palm oil in the first half of 1974. At the other extreme, the terms of trade showed relatively little improvement on the average of the 1960s for rubber and coffee, and remained depressed for tea.

While many developing countries have enjoyed a considerable improvement in their terms of trade in 1973 and the first half of 1974, some countries with relatively large imports of food and petroleum have suffered further deterioration of their terms of trade because of the particularly large price increases for these commodities.