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THE CENTRE-PERIPHERY TERMS OF
TRADE CONTROVERSY:
A RE-EXAMINATION

The issue of terms of trade has been a subject of much discussion since the days of Adam Smith. There are different concepts of terms of trade - commodity terms of trade, factorial terms of trade, income terms of trade, etc. Of these, the commodity terms of trade is most popular due to its easy calculation and availability of relevant data. Much of the terms of trade debate is concerned with the commodity terms of trade. It is defined just as the price on unit value ratio.

In the classical framework of Smith, Ricardo and Thiers, the commodity terms of trade and factorial terms of trade move together so the commodity price ratio is just the balder productivity ratio. The classical writers believed in long-term improvement in the terms of trade of primary products vis-à-vis manufacturers as the production in the primary sector was governed by the law of diminishing returns and manufacturing sector was subject to increasing returns and cost-reducing technical progress.

In the first half of the 20th century, Keynes (1912), Robertson (1915) and Clark (1942) subscribed to the classical views; as a support to their standpoint, they referred to the decline in the terms of trade of manufacture exporting of Britain at various time periods.

In the early 1950s, the issue of terms of trade has been given a wider perspective: the behaviour of terms of trade between primary products and manufacturers has been studied along with the British terms of trade to get a clue to the behaviour of the terms of trade of the developing region - the South - the periphery vis-à-vis the developed region - the North - the Centre. More specifically, we have to mention the works of Raul Prebisch (1950) and Hans Singer (1950). Both of them hypothesized a secular deterioration in the terms of trade of primary producing underdeveloped region - the periphery of the industrialized Centre - from the observed deterioration in the inverse of British terms of trade as well as in the terms of trade of primary products (vis-à-vis manufacturers). They strongly criticized the Ricardian pattern of international division of labour where the periphery was assigned the role of supplying primary products to the industrialized centre. Theoretically, it was expected that the periphery with its specialization in primary production would get a share of the fruits of technical progress taking place in the manufacturing sectors of the centre through free trade between primary producers and manufacturers, and favourable movements in the terms of trade to be in favour of primary products. But that theory was not borne out by the facts. Hence, it was suggested to the policy makers of the newly

independent peripheral countries to discard the Ricardian pattern of specialization and free trade and to follow a path of rapid industrialization under state protection. Later on, Gunnar Myrdal (1956) also supported this "inward looking industrialization" in the periphery.

The Prebisch-Singer-Myrdal thesis of "inward looking industrialization" on the theory of autarkic development generated a great controversy in the academic world. A large number of economists mostly from the developed countries pounced on the thesis, specially from the viewpoints of facts. A large part of the centre-periphery terms of trade controversy is concerned with this statistical criticism. So far my research has concentrated on this aspect of the terms of trade controversy.

In spite of severe criticism, the Prebisch-Singer thesis could not be hurried in the ground. Rather what was initially a hypothesis of terms of trade deterioration of primary products evolved into the Theory of Unequal Exchange with an explicit shift of emphasis from the relations between types of commodities to relations between types of countries. Although the term "unequal exchange" has been popularized by Emmanuel (1969), the pioneer in this shift of emphasis is one mainstream economist, Kindleberger, whose work dates back to 1956-58, as Hans Singer himself admitted. Prebisch-Singer (1988) wrote that this extension of the Prebisch-Singer thesis means that export substitution is diversification of exports out of primary countries and into manufactured products does not provide a full escape from unequal exchange in international trade for developing countries.

Moreover, following the pioneering work of Lewis, we find a large number of North-South models to explain the secular tendency of the terms of trade of the South - the periphery to deteriorate.

In this background, I started work in this field. My basis focus was the statistical aspect of the terms of trade controversy. As the factual basis of the Prebisch-Singer thesis on Emmanuel's Unequal Exchange thesis was not generally accepted, it seemed to me a more useful exercise to go into the details of historical as well as current evidence (see Sarpur 1986, 9rb, c).

Firstly, I studied the history of British terms of trade. The terms of trade experience of Britain was often correlated with the behaviour of the terms of trade between primary products and manufactures, since British export structure was dominated by manufacturers and import structure by primary products. As I already mentioned, Keynes, Robertson and Clark used British terms of trade data to support the classical proposition of a long-term trend improvement in the terms of trade of primary products. While Keynes and Robertson referred to very short period British data, Colin Clark referred to the British terms of trade experience in the first half of the nineteenth Century. It is an irony that Raul Prebisch found a support of an opposite hypothesis from British terms of trade experience - his period of reference was 1876-1938. Prebisch was now criticized as he did not take into account the first half of the 19th century.

In my study, I covered the whole period, 1800-1938. I used four available series - Ionlah (1950), 1798-1913, Ionlah (1958), 1796-1913, Schlope (1938), 1801-1933, UN (1949), based on Board of Trade Data, Series (1876-1938).

On the basis of Rostow (1978) Chart, I found two trends - in the first half of the 19th

century, British terms of trade declined. Then after twenty years of transitional confusion, it started to move upwards. On the basis of during variable analysis, I have verified this observed reversal of trends in the Schlote series (see Sankar 1986a).

Some critics try to explain the improvements in British terms of trade since the last quarter of the 19th century in terms of rapid decline in shipping freights on the plea that British export data are f.o.b. and import data are c.i.f. On the basis of my regression analysis, I did not find any statistically significant negative correlation between any of the British terms of trade series and shipping freight series of Caincours (1958) and Isserlis (1938) that the critics referred to. (From the periods, 1882-1900 and 1882-1913, I found no correlation; for the longer period, 1882-1929, I found a positive correlation - it may imply an opposite valuation bias - against the Prebisch-Singer hypothesis.)

So taking the reversal of British terms of trade as a fact, I set myself to the task of explaining this. An examination of British export structure reveals that in the first half of the 19th century, cotton textiles dominated British export composition. In the field of textiles, rapid technical progress took place at the time. In most of the colonies with which Britain had rising trade relations, textile industry existed in the form of handicrafts since the ancient days. So British textile exports faced competition. Moreover, it had to face competition from indigenous wool industry. All these led to fall in prices in response to fall in cost reduction. In many cases, under the discriminatory commercial policies pursued by the colonial government, prices were cut as a part of dumping. This destroyed the cotton textile handicrafts of the colonies. There was general immiserization. In economic history of many countries including India, this is known as the phenomenon of de-industrialization.

After the completion of the process of de-industrialization, and with the spread of technical innovation to newer industries, British terms of trade started to improve. These new industries were organized on oligopolistic lines; the oligopolistic price rigidity did not allow prices to fall in response to cost reduction. Hence Prebisch was right when he pointed out the improvement in British terms of trade and argued that the classical mechanism of distribution of the gains from technical progress through trade operated no more.

After the study of British terms of trade experience since the 19th century, I studied the terms of trade between primary products and manufactures on the basis of Lewis (1952) series over the time span 1870-1938. The Lewis series exhibited a declining trend at the annual rate of 0.52% ($R^2=0.63$, $DW=1.60$, $Z\text{-ratio}=-5.20$). If we exclude the depression years of the 1930s and take the period 1870-1929, the rate of decline is still statistically significant, -0.29%.

In the construction of Lewis series, British export prices of manufactures and import prices of primary products were used along with other prices. But I did not find any valuation bias to the favour of the Singer-prebisch hypothesis - rather I found a negative correlation between Isserlis series of shipping freights and Lewis series over the period 1870-1929.

From the source of UNCTAD, we get series for the period 1900-1970. Taking into account structural shifts (in interests) after the Second World War through the during variable analysis, it has been observed that the terms of trade declined at an annual

rate of 1.26%, significant at 1% level over the whole period.

David Sapsford applied this findings of dummy variable analysis for a number of petroleum exclusive hybrid series for a longer span, 1900-1982 and found a support to the Prebisch-Singer deterioration hypothesis over the whole period - the rate of decline was 1.27% per annum.

Hereby, Grille and Yang (1988) found that the prices of all primary commodities (including fuels) relative to those of traded manufactures declined by an average annual rate of 0.5% over the period, 1900-1986. It is then clear that the tremendous oil price hike cannot revert the century old tradition of a declining terms of trade of primary products(!).

Recent years experienced further accentuation of the deteriorating trend as a number of series available from the source of UNCTAD Handbook 1987 bear evidence:

Details	Annual Av. Rate of Chae	R2	DW
Food & Beverages/Mfres.	-2.4% (-2.80)	0.38	1.62
Veg. Oils/Mfres.	-4.2% (-2.65)	0.35	1.63
Agr. Raw Mat./Mfres.	-1.6% (-2.32)	0.29	2.04
Ores & Metals/Mfres.	-1.9% (-2.52)	0.33	1.51
Primary Products (less fuels)/Mfres.	-2.3% (-3.37)	0.47	2.03

Now I come to the issue of terms of trade between the Centre and the periphery. Direct series on terms of trade of the periphery are not available for the pre-Second World War period. But the terms of trade of primary products can be taken as a good proxy for that, as manufacturers dominated the production and export structures of the Centre while primary products dominated their counterparts in their periphery.

For the post-Second World War period, 1950-80, two series on terms of trade between the developing periphery and the developed centre are available from the source of United Nations. The trends exhibited by these series correspond well with those exhibited by the series on terms of trade of primary products:

	Annual Av. Rate of charge, 1950-80	R2	DW
Primary products/Mfres.	3% (2.27)	0.07	1.93
Periphery/Centre/Mfres.	3% (3.84)	0.25	2.00
Primary Products (less fuels)/ Mfres.	-8.85% (-4.25)	0.79	2.15
Periphery (less fuels)/Mfres.	0.65% (-3.92)	0.49	1.79

To identify the source of movements exhibited by the terms of trade of the periphery over the period 1950-80, for which direct data are available, I have considered the terms of trade of food, raw materials and fuels exported by the periphery to the centre in relation to food, raw materials, fuels, chemicals, machinery and other manufactures exported by the centre to the periphery (Sarkar 1986c). From my analysis, I observed that the source of the terms of trade decline of the periphery vis-à-vis the centre does not lie in the flows of primary products between the two regions. It is in the exchange of their food and raw materials for machinery and other manufactures, the periphery experienced a deterioration in the terms of trade during 1950-80. In the case of exchange of fuels for machinery of the centre, their periphery faced a decline in their terms of trade during 1950-72. Only after the exertion of their monopoly power during the middle of the 1970s, the periphery reaped a terms of trade gain for their fuel exports.

Recently Singer (1988) pointed out in a privately circulated paper that between 1970 and the third quarter of 1986, the unit value index of manufactured goods exports from the periphery deteriorated by 26% relative to the unit value index of manufactures exported by the centre. Hence diversification of exports out of primary commodities and into manufactures does not provide a full escape from "unequal exchange" for the periphery. Hence the "unequal exchange" extension of the Prebisch-Singer thesis is also statistically valid.

To the behaviour of income terms of trade: On the basis of centre-periphery trade data, available for the period 1950-80, I have calculated the income terms of trade - the purchasing power of exports of both the centre and the periphery. (The income terms of trade of a region is defined as the commodity terms of trade of the region (vis-à-vis the other region) multiplied by its quantum index of exports (to the other region). It is designed to reflect gains in volume of exports at the expense of a decline in the commodity terms of trade.)

It has been observed that the purchasing power of exports of the periphery exhibited a slower growth than that of the centre during 1950-72, although during that period the periphery faced a significant deterioration in their commodity terms of trade vis-à-vis the centre. hence the decline of the commodity terms of trade of the

periphery does not have a favourable impact on their relative purchasing power of exports. Only after the oil price hike in the 1970s, and the consequent rise in terms of trade of the periphery, they gained in terms of their relative purchasing power of exports.

As regards the movements of factorial terms of trade, my study does not cover that. The use of these factorial terms of trade is often suggested to reflect whether a deterioration in the commodity terms of trade is the result of improvements in productivity and consequent relative decline in costs and prices of export goods.

But on the basis of some data, I can tell something about the factorial terms of trade. Available data tell that labour productivity in the centre increased at a much faster rate than of the periphery during 1960-80:

	Annual average 1960-70	Growth Rate of Labour Productivity in Manufactures 1970-80
Centre	4.1	2.8
Periphery	2.3	0.4

Hence the decline in the commodity terms of trade of the periphery implies a far more greater decline in factorial terms of trade. Recently John Spraos (1983) found that the employment corrected double factorial terms of the commodity producing sector of the periphery declined significantly over the years 1960-77.

Moreover, available evidence tells that during the oil-crisis years, 1970-80, the labour productivity of the periphery in the field of crude petroleum and natural gas declined at an annual rate -2.3% (that of the centre declined at an annual rate -1.2%). That means, the periphery did not gain much in their factorial terms of trade during 1970-80 when they faced an improvement in their commodity terms of trade.

I have also developed a simple theoretical framework of a labour surplus economy to show that technical progress in the form of an improvement in labour productivity is often associated with a decline in both of their barter and factorial terms of trade.

To sum up, in view of the recent studies and their findings, the empirical base of the Prebisch-Singer thesis can be said to be much stronger than what it seemed in the earlier decades. It is clear that contrary to the classical proposition upheld by Clark (1942) and Aubrey (1957), there was a secular decline in the terms of trade of primary products in relation to manufactures. That deteriorating trend continued even in the post-Second World War years. Concurrently, the terms of trade of the periphery vis-à-vis the centre also deteriorated. This picture is obscured by the oil price hike of the 1970s.

It is true that the 1950 papers by Singer and Prebisch could not foresee the OPEC action and temporary OPEC power, as Singer himself admitted. But the OPEC action actually supported the Prebisch-Singer thesis since implication of the thesis was that the primary product exporting countries should not rely on the free market which worked to their disadvantage but needed to take cartel action if they wanted to

change market forces. This is exactly what OPEC managed to do at least temporarily. Encouraged by the success of the OPEC, the UN declaration for a New International Economic Order (NIEO) called for organising production cartels along the lines of OPEC. But it is very difficult to be a success since most of the export goods of the periphery do not possess the unique position assured by petroleum in the world economy. Even the OPEC is petroleum is now less powerful than it was in the mid-1970s since the technological capacity of the Centre is strong enough in the medium run and even more so in the long-run to reduce the demand for petroleum in response to price rises in many ways. This reduces the monopoly power of the OPEC.

Lastly, it should be borne in mind that the issue of terms of trade in the centre periphery economic relations is only a tip of the iceberg. The core of the idea of unequal exchange between the Centre and ther Periphery can be stated in the world of Paul Streeten: "... in the world economy there are forces at work that make for an uneven distribution of the gains from trade and economic progress generally, so that the lion's share goes to the lions, while the poor levels are themselves swallowed up in the process." It is open to doubt how far this core will be manifested in the movements of terms of trade.

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Claudia Wild **MEDIALE BERICHTERSTATTUNG ALS** **ENTWICKLUNGSPOLITIK**

Nach dem nahezu gänzlichen Ausbleiben österreichischer staatlicher Entwicklungshilfeleistungen konnte man/frau folgern, daß nunmehr stattdessen oder zumindest die Konzentration auf eine informatorische und aufklärende Arbeit im Inland zunimmt. Mit der Reduktion der lebensnotwendigen budgetären Mittel ist auch eine weitreichende und wirkungsvolle Arbeit des einzigen entwicklungspolitischen Informationsdienstes in Frage gestellt. Was verbleibt, wäre eine entwicklungspolitisch reflektierte mediale Berichterstattung. Rechtfertigt sich nicht etwa das bestehende Rundfunkmonopol durch seinen gesetzlichen Auftrag, in dem eben auch die Vermittlung bildender Inhalte als Aufgabe verankert ist?

Der folgende Aufsatz mag auf den ersten Blick ambivalent erscheinen: Es ist einerseits mein Anliegen, das Heranziehen der ewig gleichen Wertemuster zur Beurteilung des Handelns anderer Kulturkreise nicht nur abermals zu beklagen, sondern auch deren Ursachen aufzuspüren und die journalistischen Schwierigkeiten verständlich zu machen, so soll andererseits aber auf die Gefahr der routinierten Abbildung des scheinbar Wirklichen auch auf Journalisten "mit gutem Willen" verwiesen werden. Die Betonung der Kritik, die auf vor kurzem durchgeführten TV-Filmanalysen beruht,¹ liegt auf der Verlagerung der Aussagen von den Formen der visuellen Darstellungen zu deren Inhalt. Was damit gemeint ist, wird im folgenden entwickelt. Vorerst aber Grundsätzliches:

1. Einleitung

Jede Entwicklungspolitik ist wesentlich vom kollektiven Bild über die Dritte Welt beeinflusst: so wie das Bild, das man/frau von einer Sache hat, für das Verhalten gegenüber dieser Sache entscheidend ist.

Eine analytische Beschäftigung mit dem Bild der Dritten Welt in unseren Medien und dessen Rezeption muß sich in erster Linie mit dem vermittelten Weltbild und den dem Weltbild zugrundeliegenden Wertesystemen auseinandersetzen. Denn unter der Perspektive der entwicklungspolitischen Dimension der Medienberichterstattung haben die im folgenden dargestellten Fragestellungen keineswegs Selbstzweck, sondern besitzen aus politischen, entwicklungs- wie friedenspolitischen Gründen Bedeutsamkeit: Daß eine Berichterstattung mit Tendenzen, Schwerpunkten und Auslassungen nämlich langfristig Wirkungen auf die öffentliche Meinung hat, ist unter Medienforschern unbestritten, insbesondere dort, wo es sich um Weltbildausschnitte handelt, die außerhalb der persönlichen Erfahrung oder Zugänglichkeit liegen.