

# **The role of macro policies in the management of terms of trade shocks in poor and vulnerable countries.**

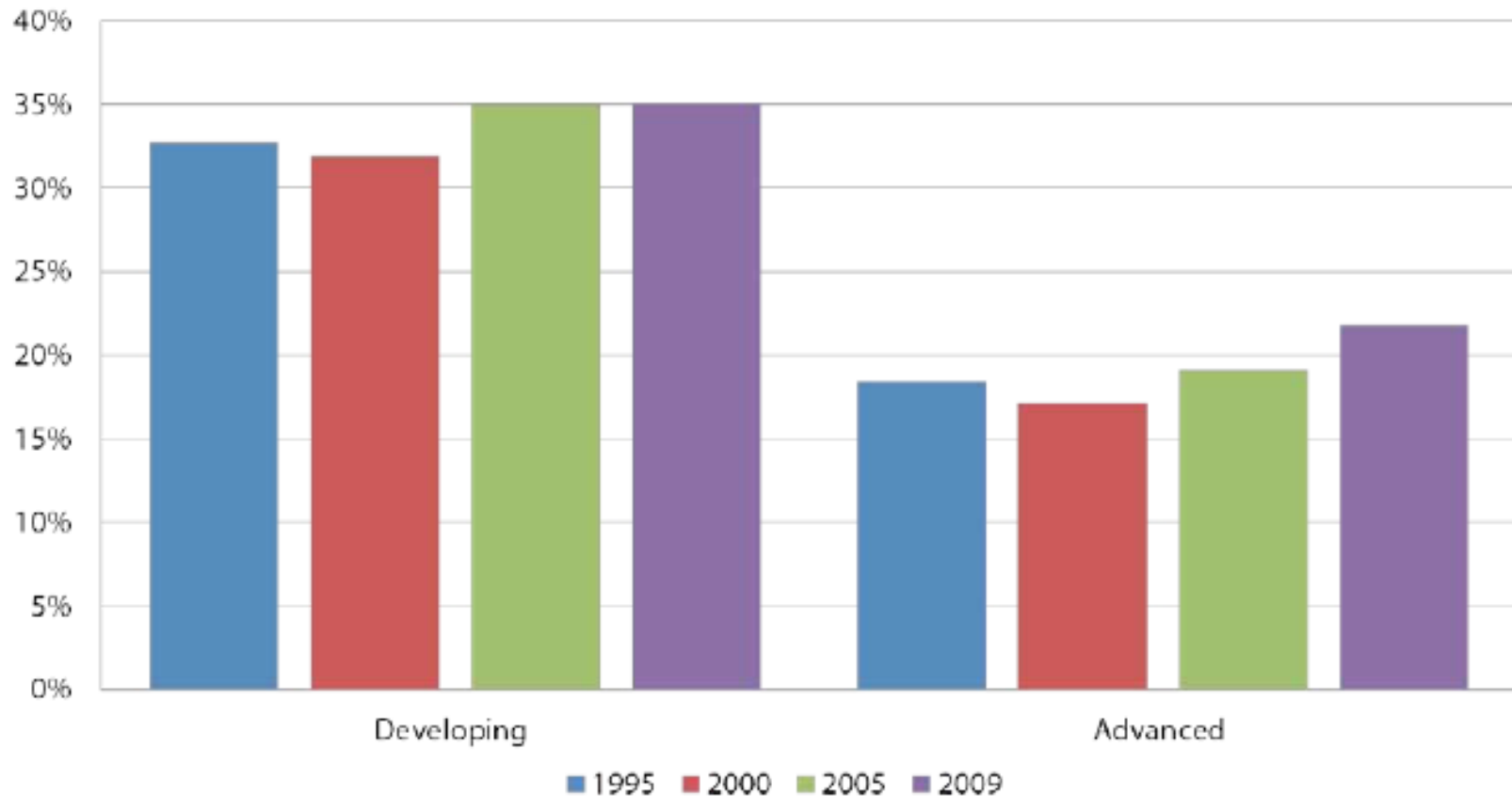
## **Introductory remarks: Evolution of commodity prices, terms of trade, and commodity dependence**

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Emeritus professor of economics, National and Kapodistrian University of Athens, Greece

Introductory remarks delivered at the session on "What role for macroeconomic policy in the management of shocks?" at the conference on "What responses to terms of trade shocks in poor and vulnerable countries?" organized by the Banque de France and the Fondation pour les Etudes et Recherches sur le Developpement International (FERDI) on January 24, 2017 in Paris, France

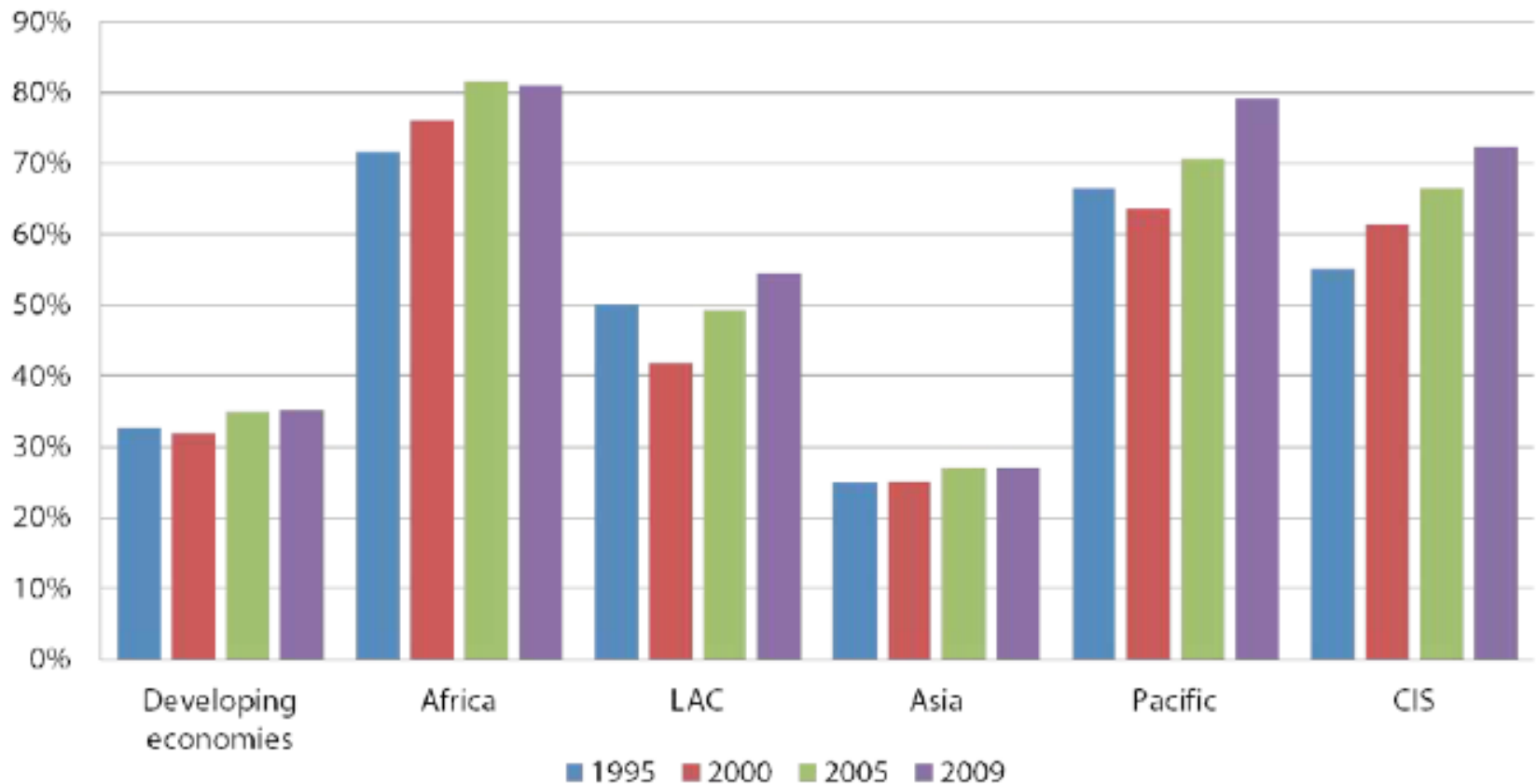
# Share of primary commodity exports in total exports 1995-2009



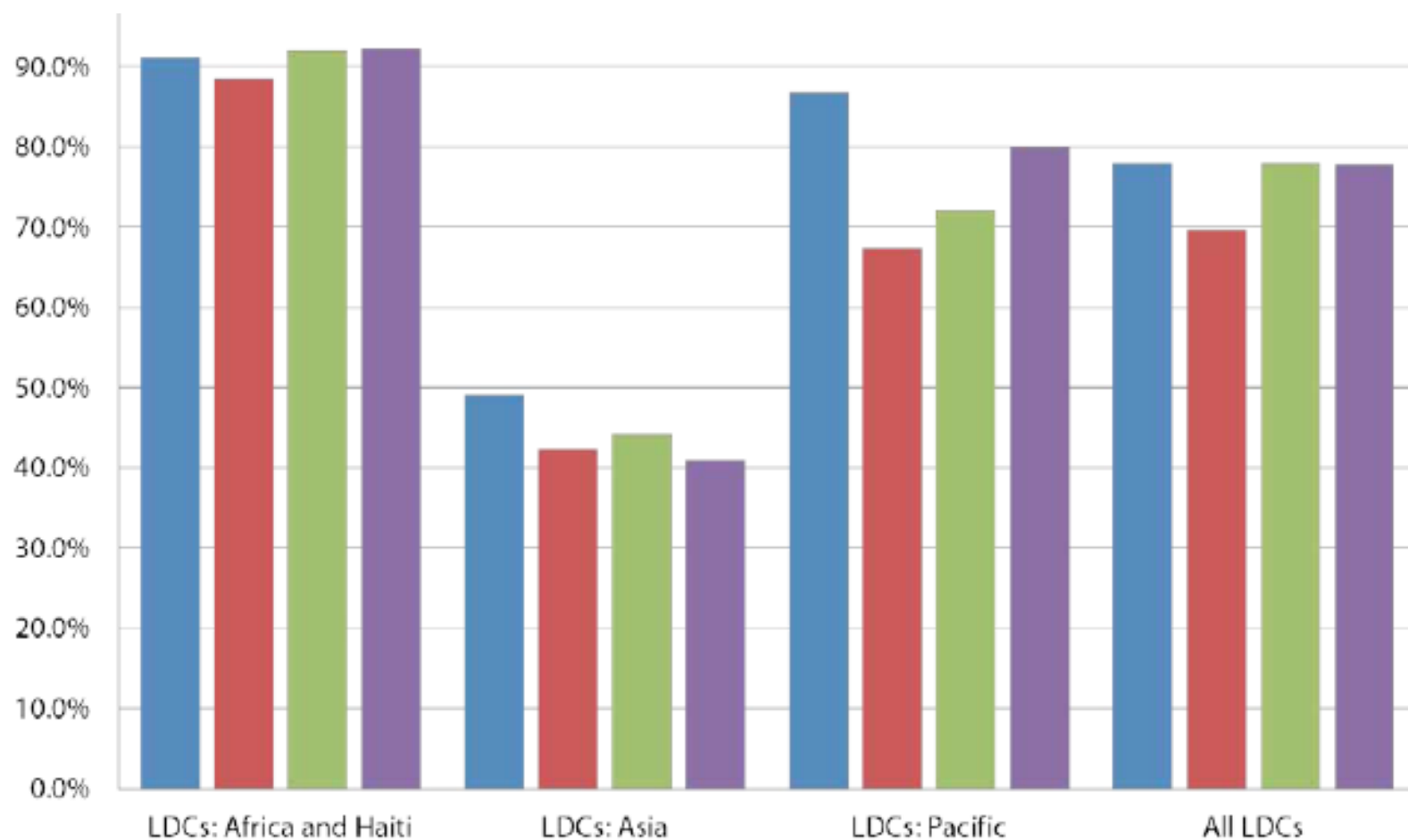
**Source:** Calculated using data from UNCTAD, Handbook of Statistics 2009

# Share of primary commodity exports in total exports by region 1995-2009

1995-2009\*

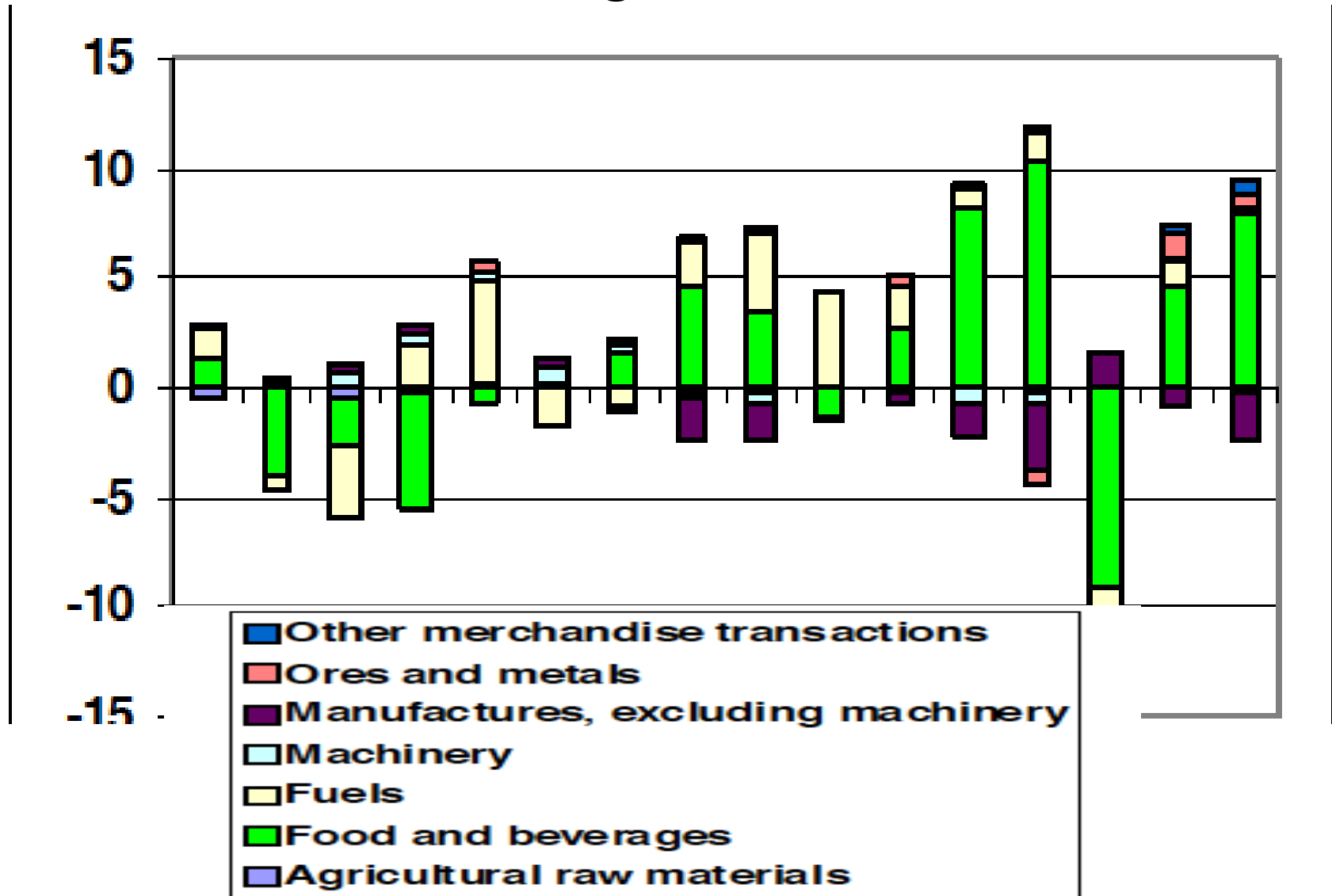


## Annex 2.A: Share of Primary Commodity Exports in Total Exports for LDCs by Region, 1995–2009

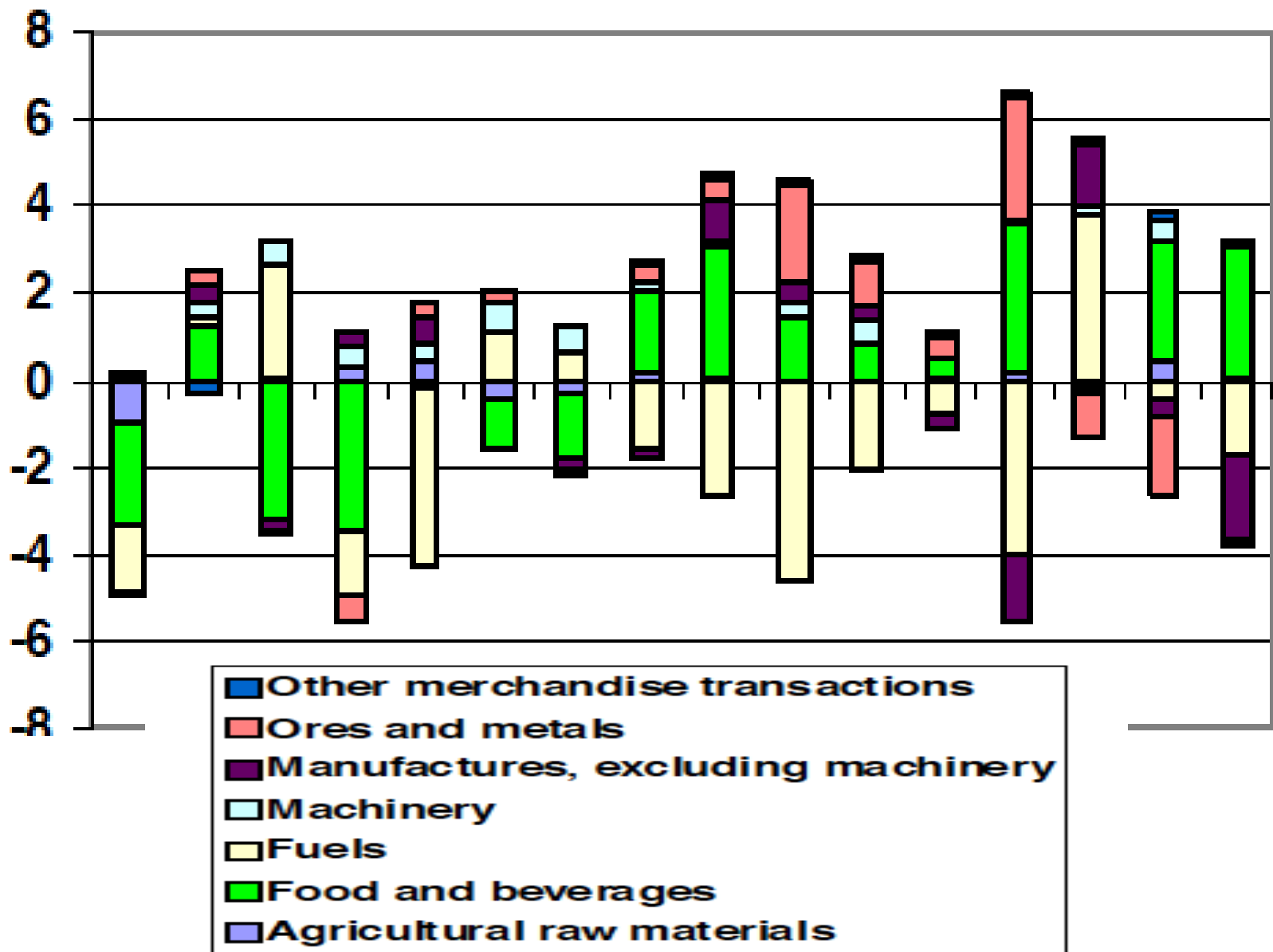


# Estimated contribution of different product categories to terms of trade changes 1996-2011

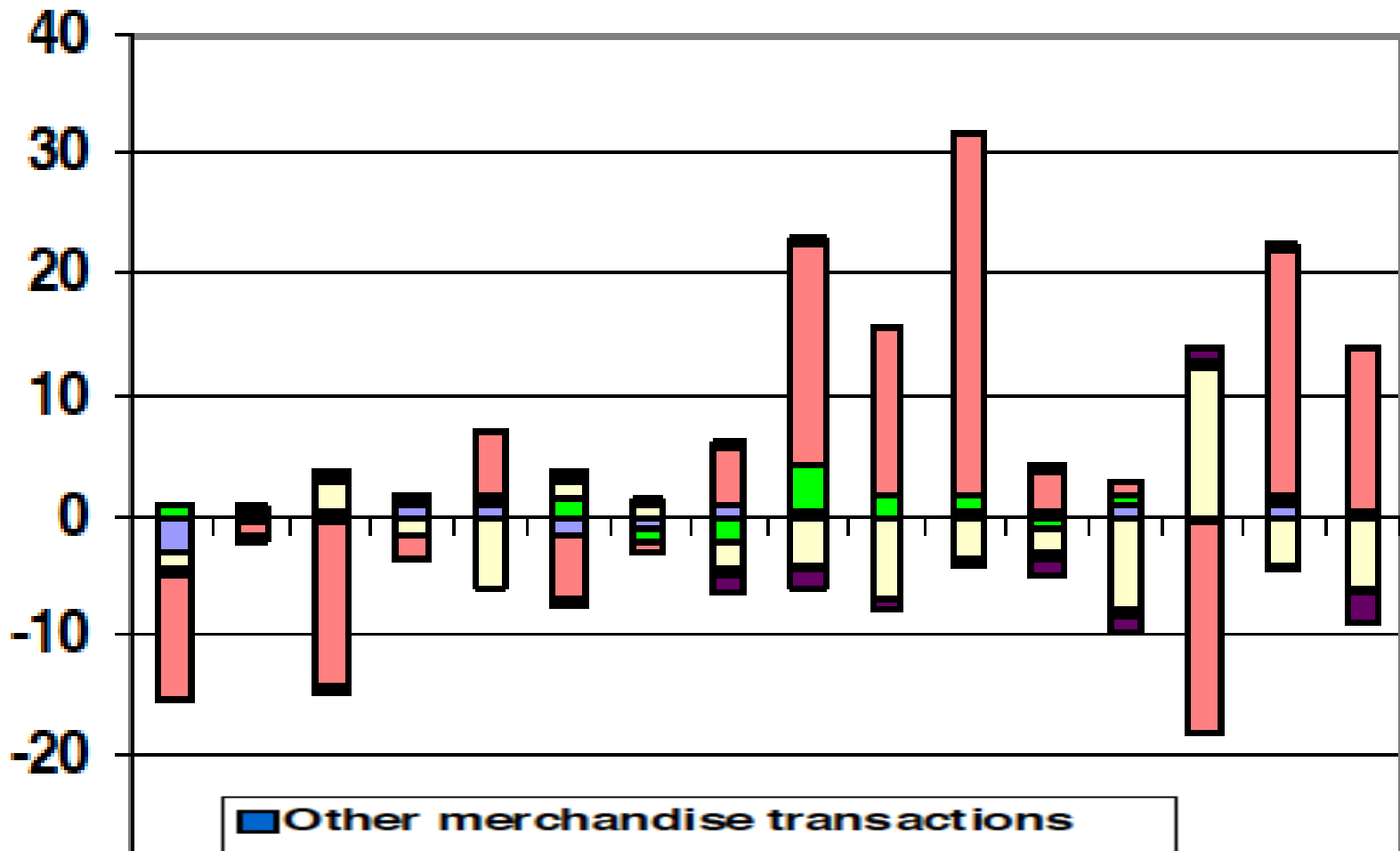
## Argentina



# Brazil

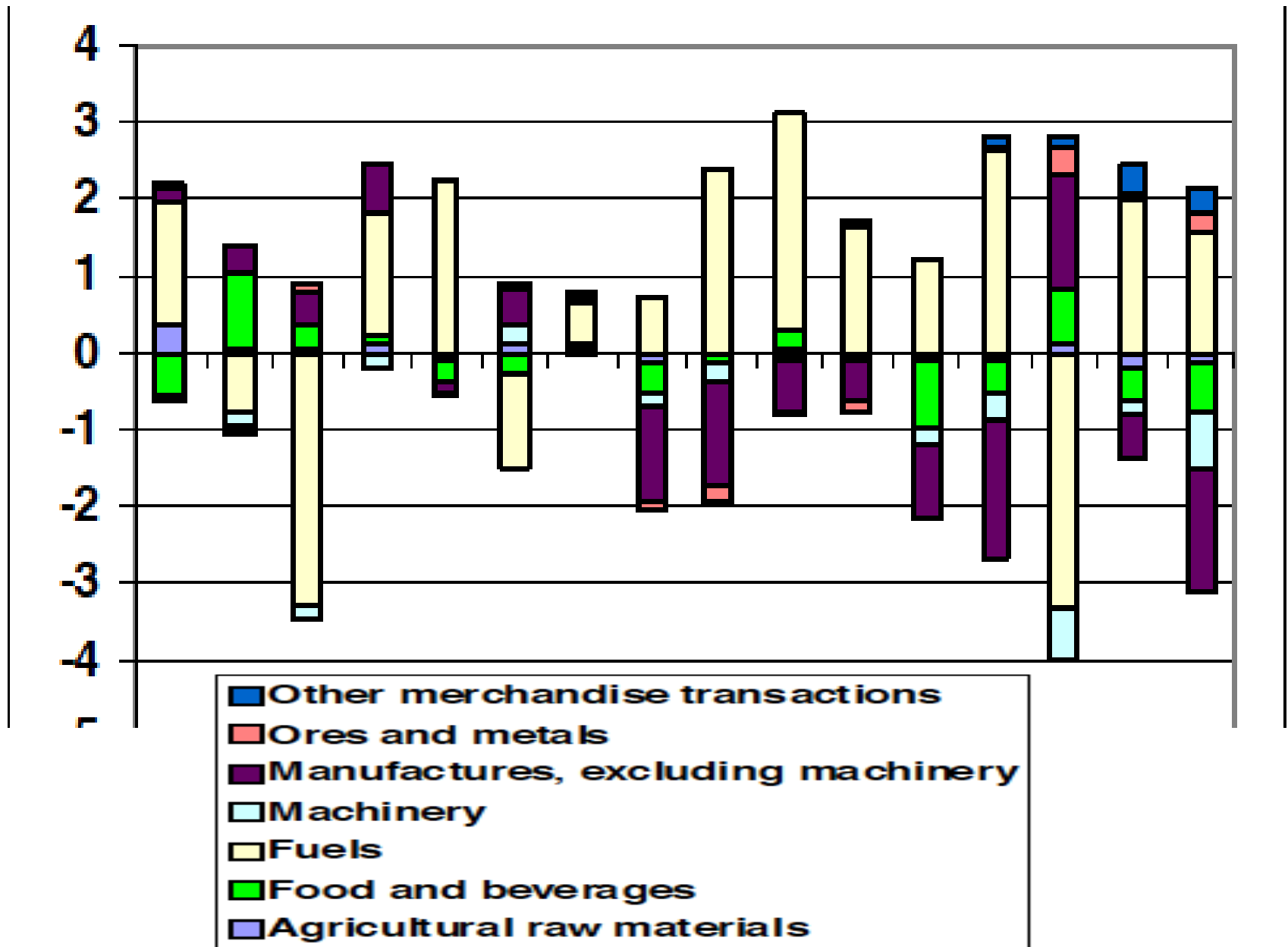


# Chile



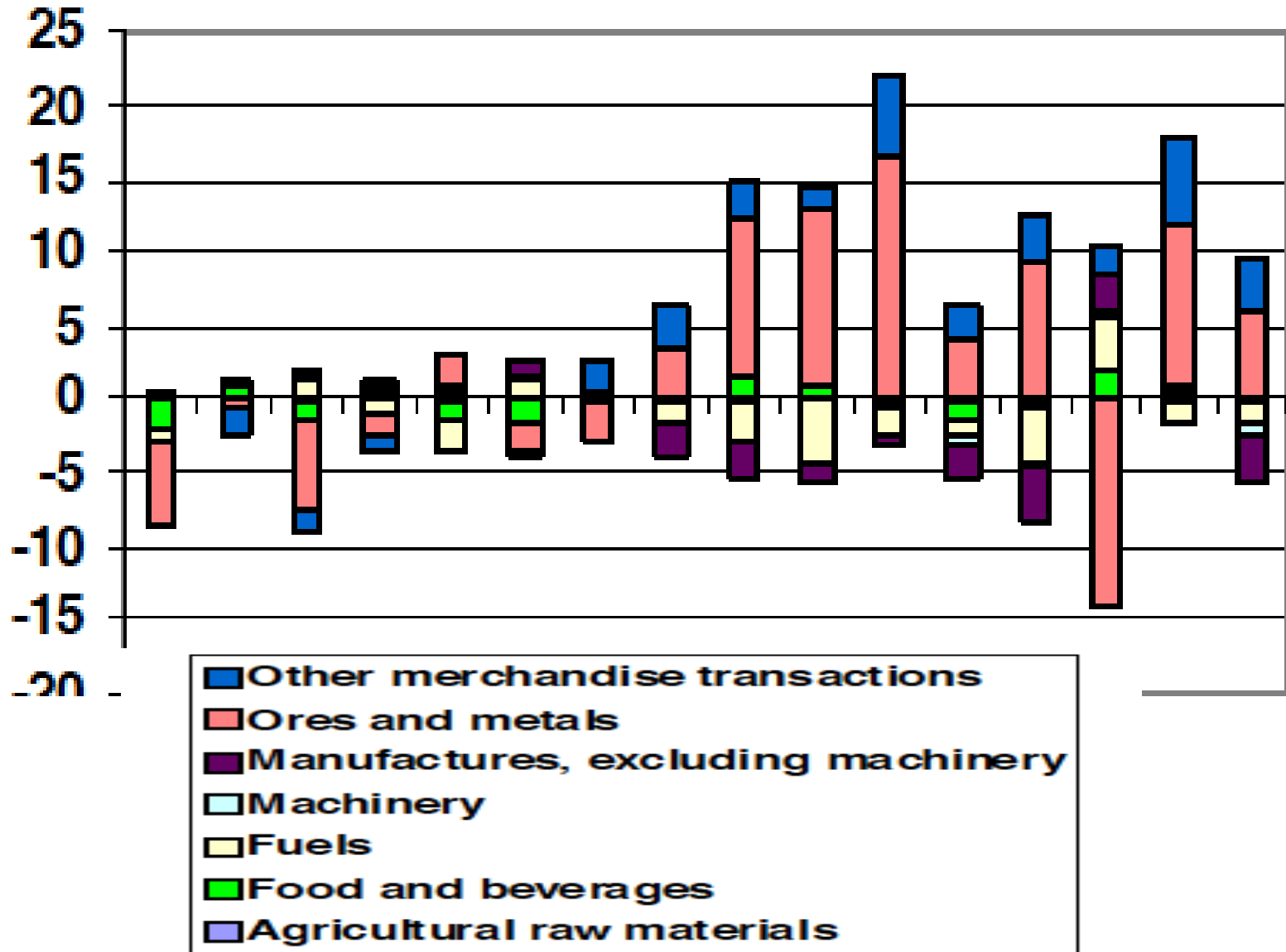
- Other merchandise transactions
- Ores and metals
- Manufactures, excluding machinery
- Machinery
- Fuels
- Food and beverages
- Agricultural raw materials

# Mexico

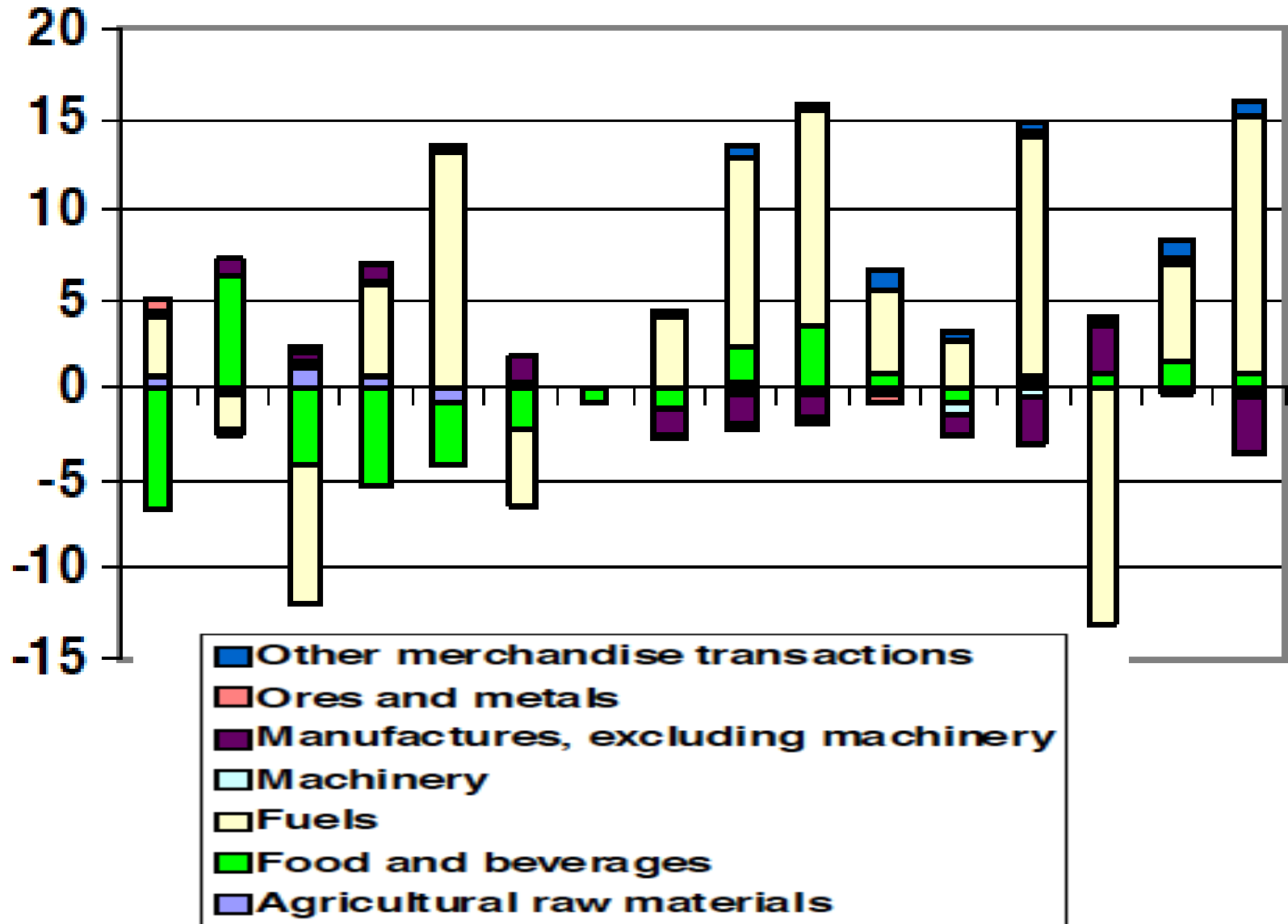




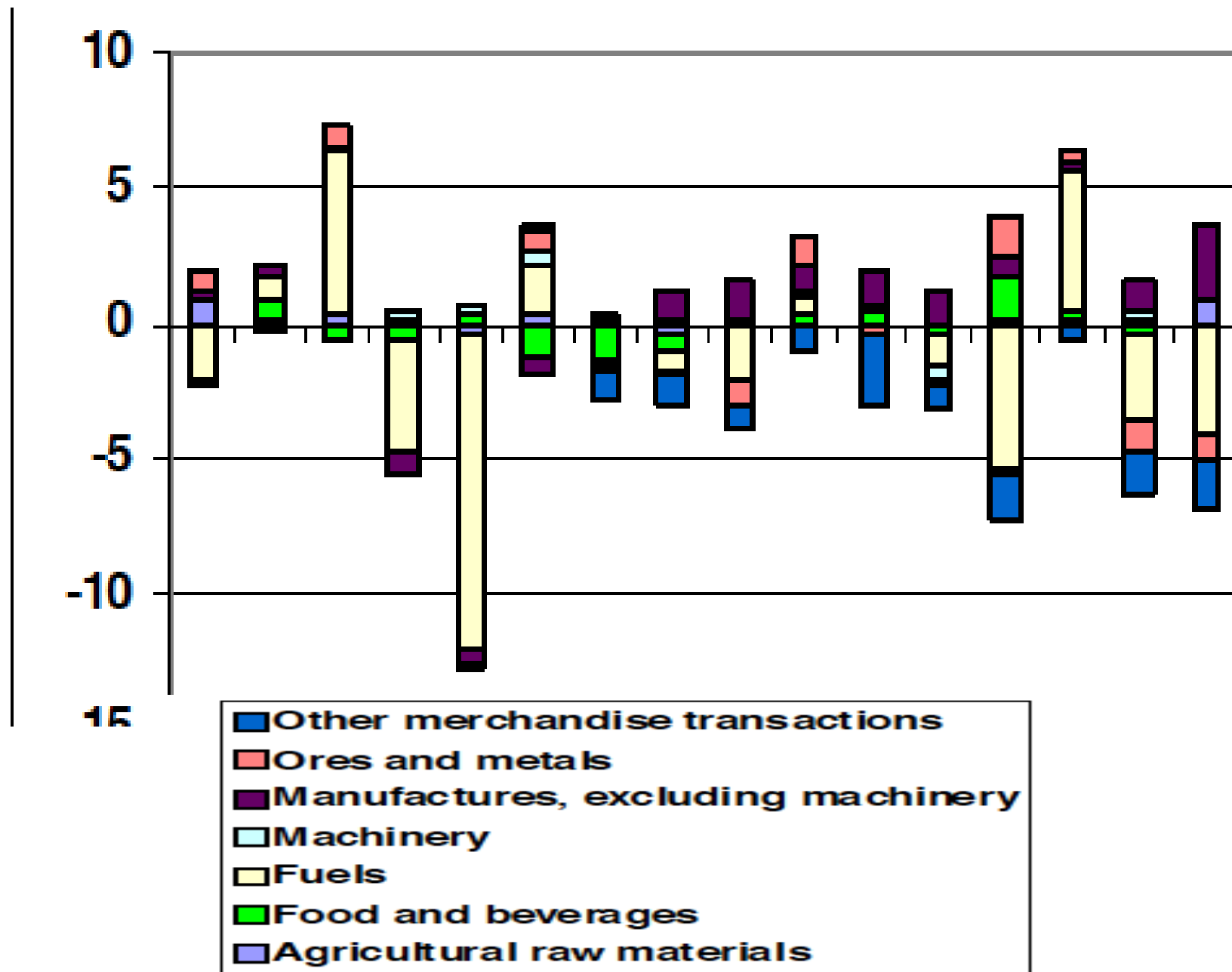
# Peru



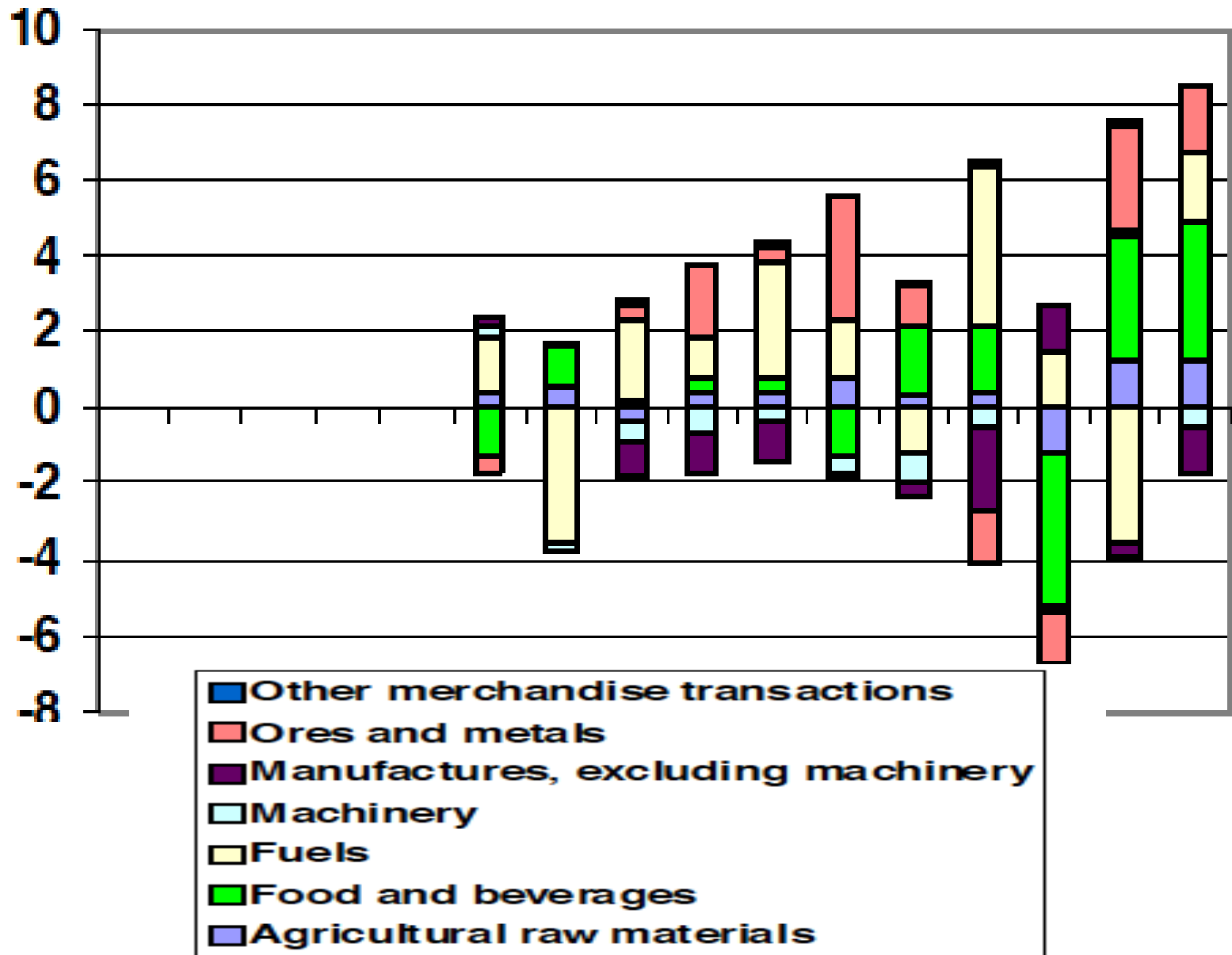
# Colombia



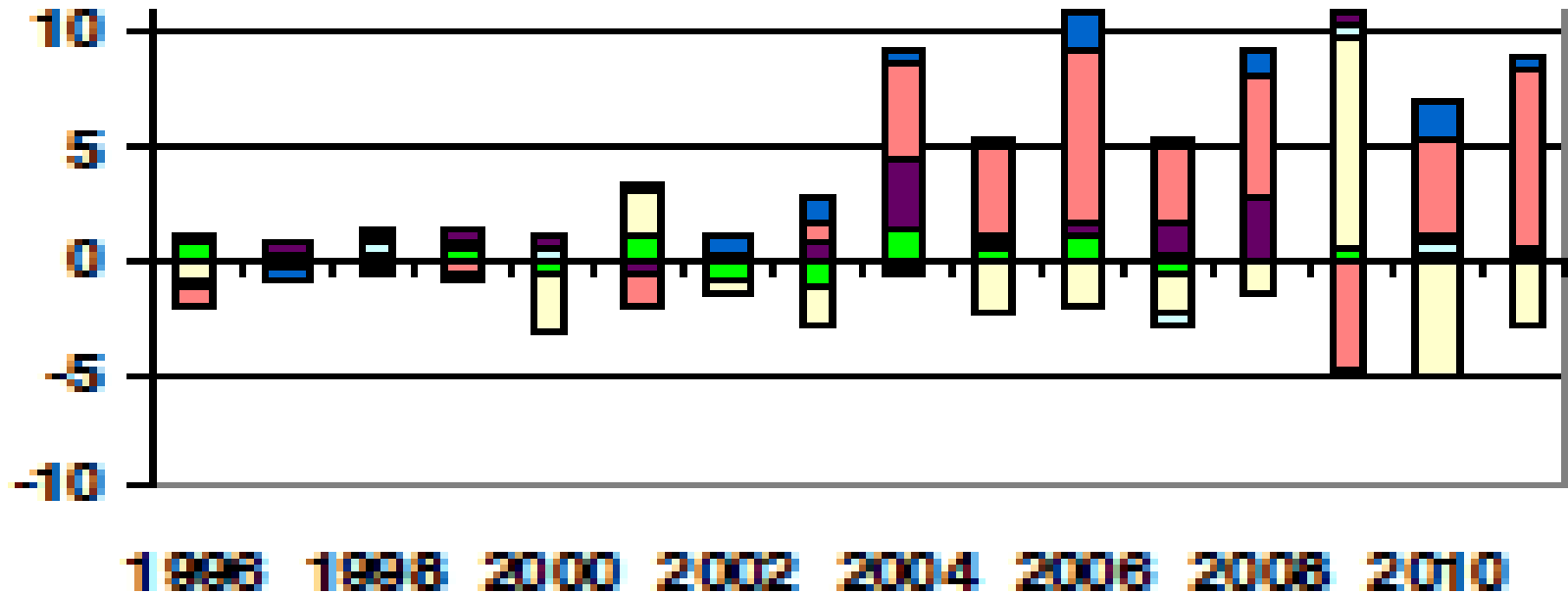
# India



# Indonesia

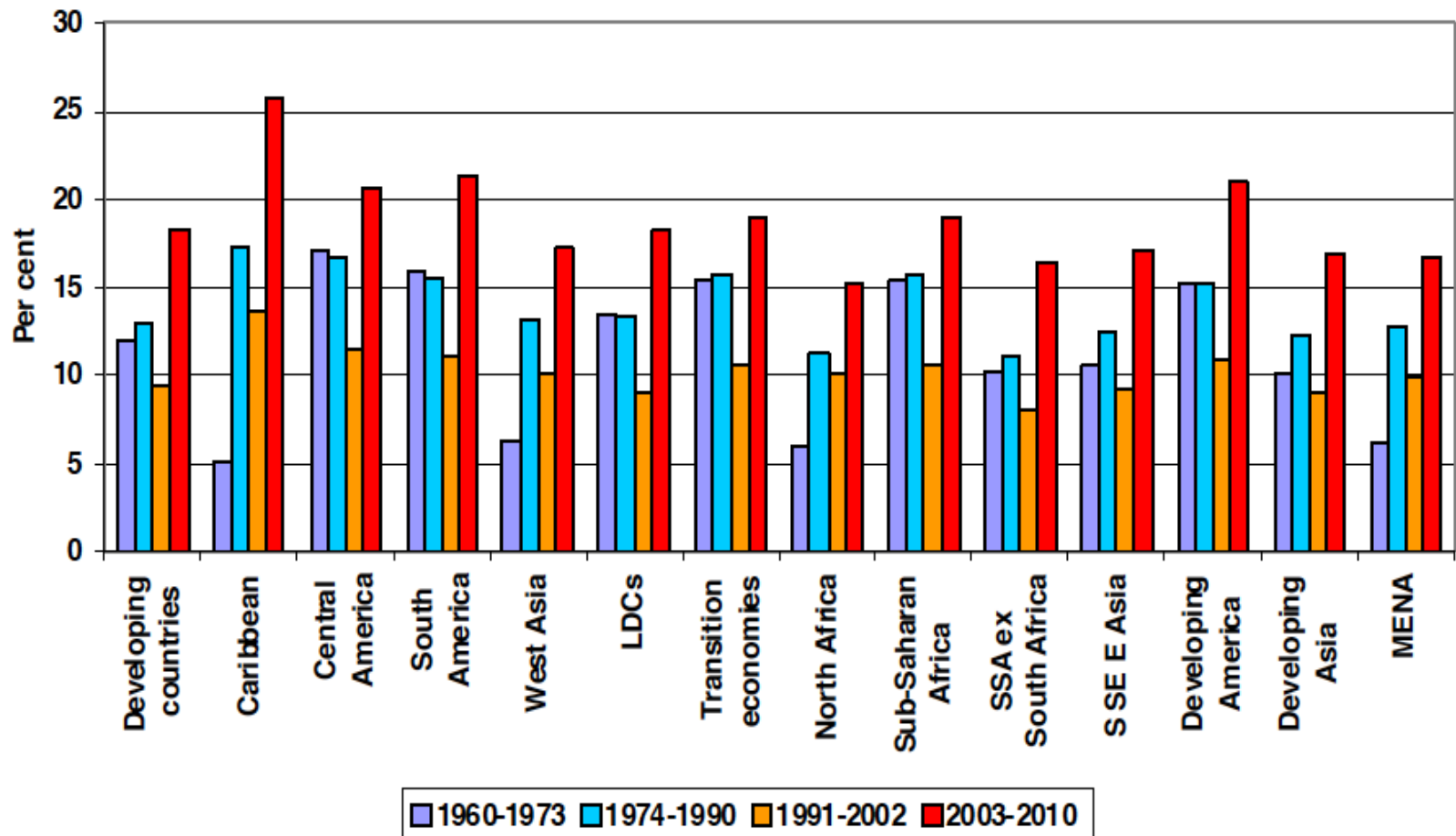


# South Africa

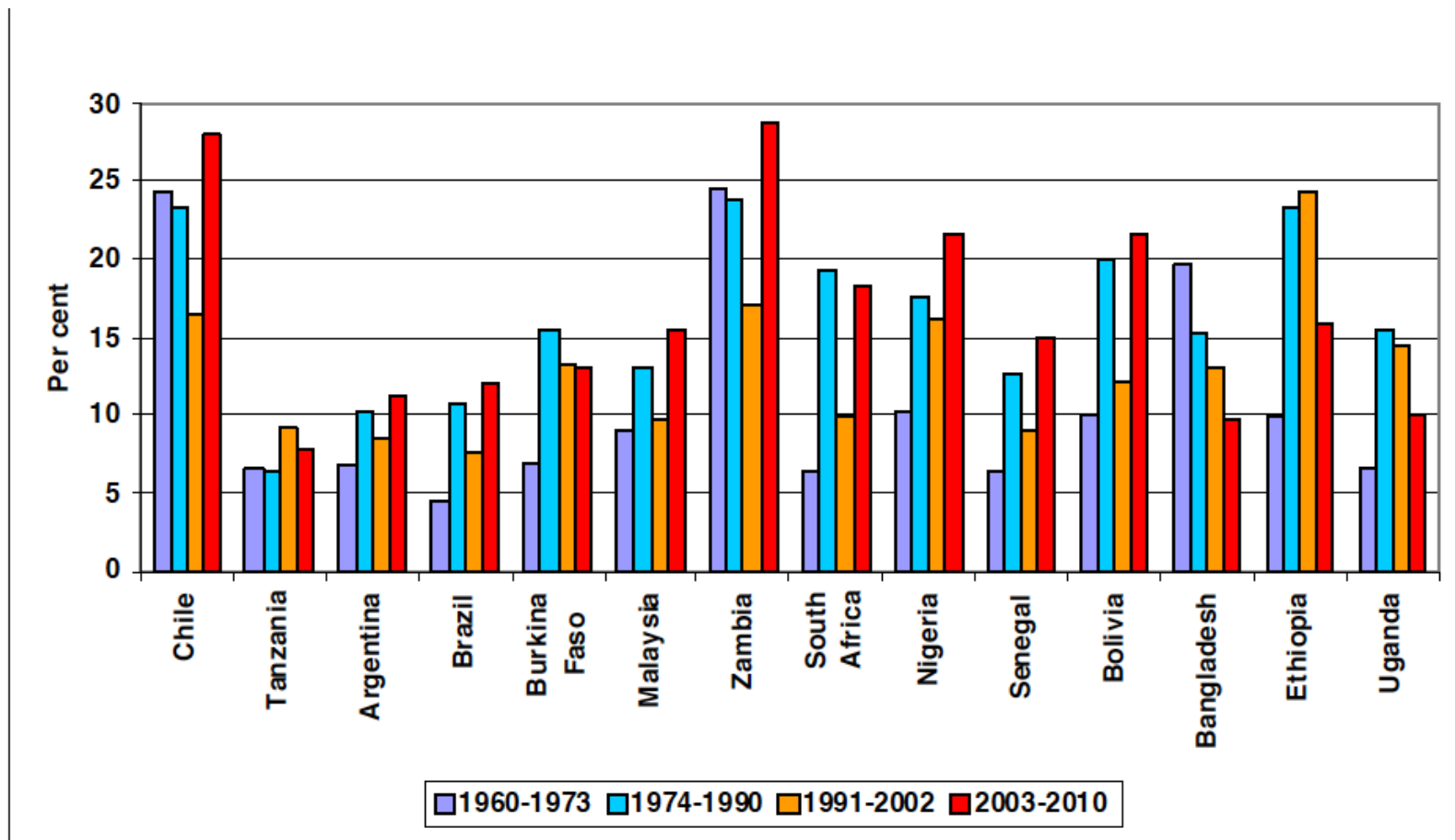


- Other merchandise transactions
- Ores and metals
- Manufactures, excluding machinery
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# Volatility of commodity export baskets has increased in the last 50 years. Volatility of commodity export baskets, selected country groups 1960-2010

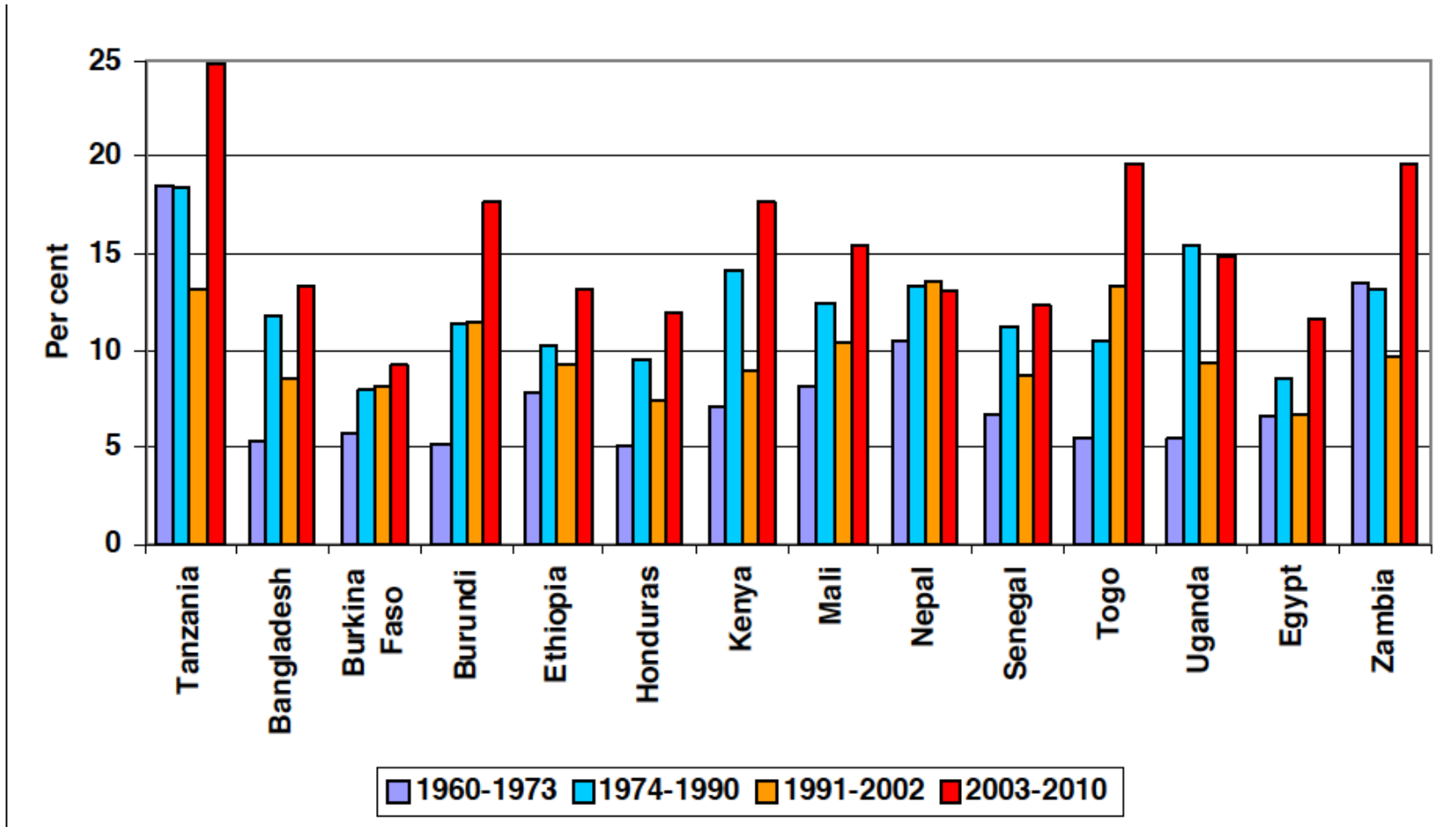


# Volatility of commodity export baskets selected countries



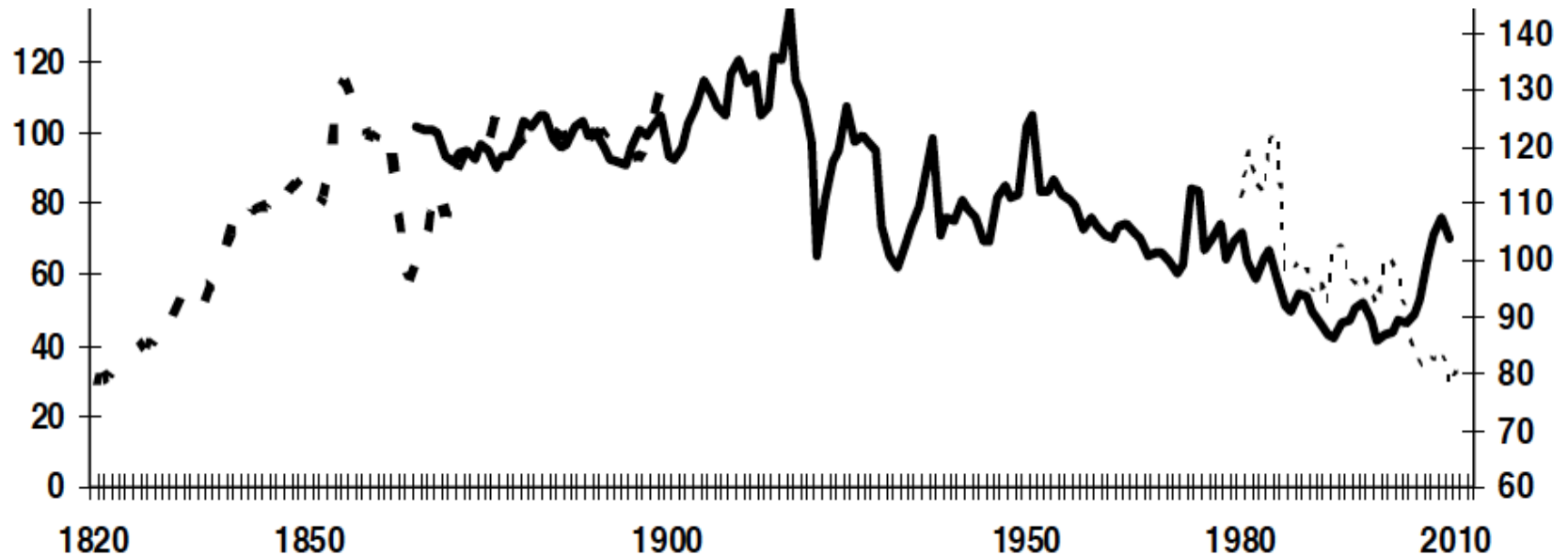
Source: See figure 1

# Volatility of commodity import baskets has also increased for Low Income Food Deficit countries (LIFDC), especially in last decade





# Aggregate barter terms of trade, 1820-2009, index numbers (1890=100)

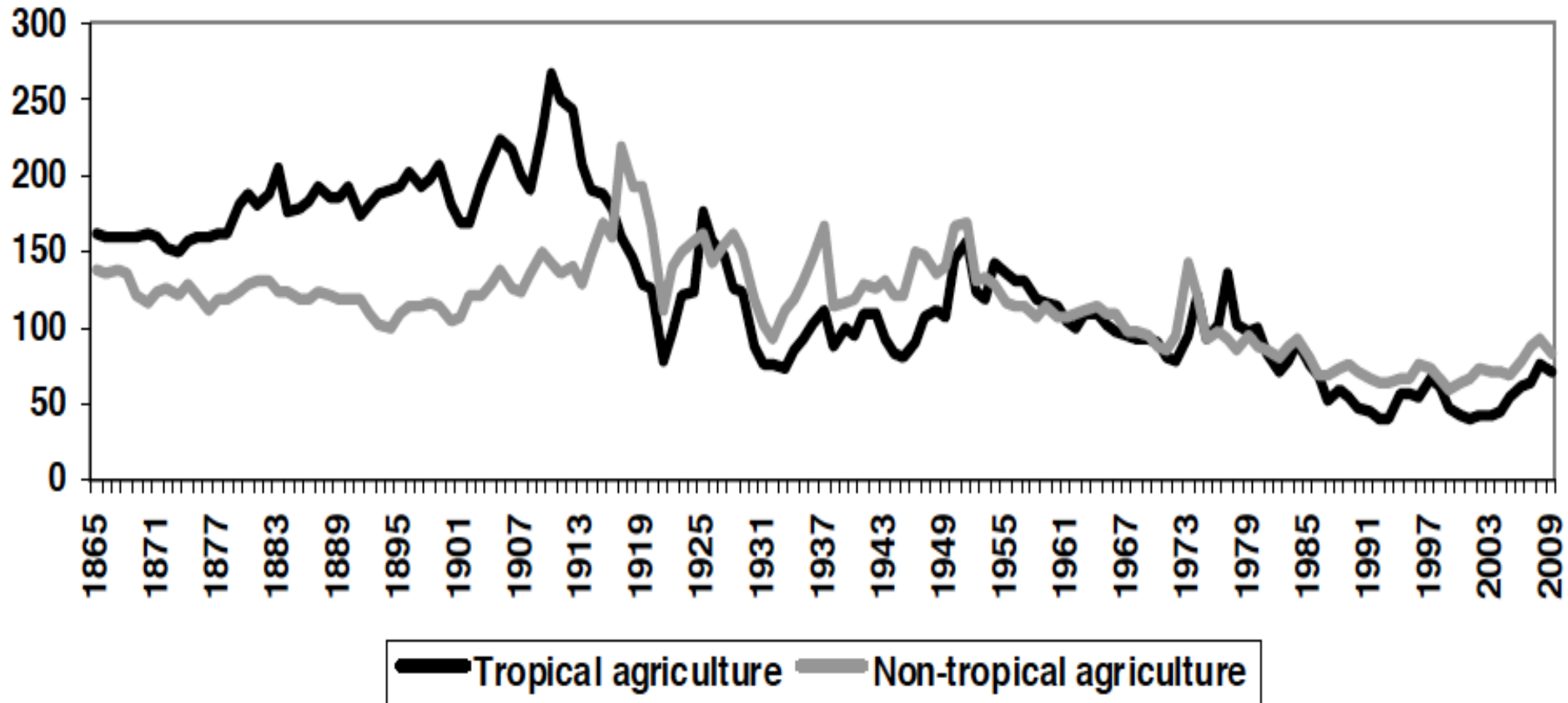


- Ratio of British commodity wholesale prices and the export price of textiles (left axis)
- Real non-fuel commodities and manufactures terms of trade (left axis)
- ..... Memo item: Prices of manufactures exported by developing countries versus prices of manufactures exported by developed countries, 1980-2011, index numbers: 2000=100 (right axis)

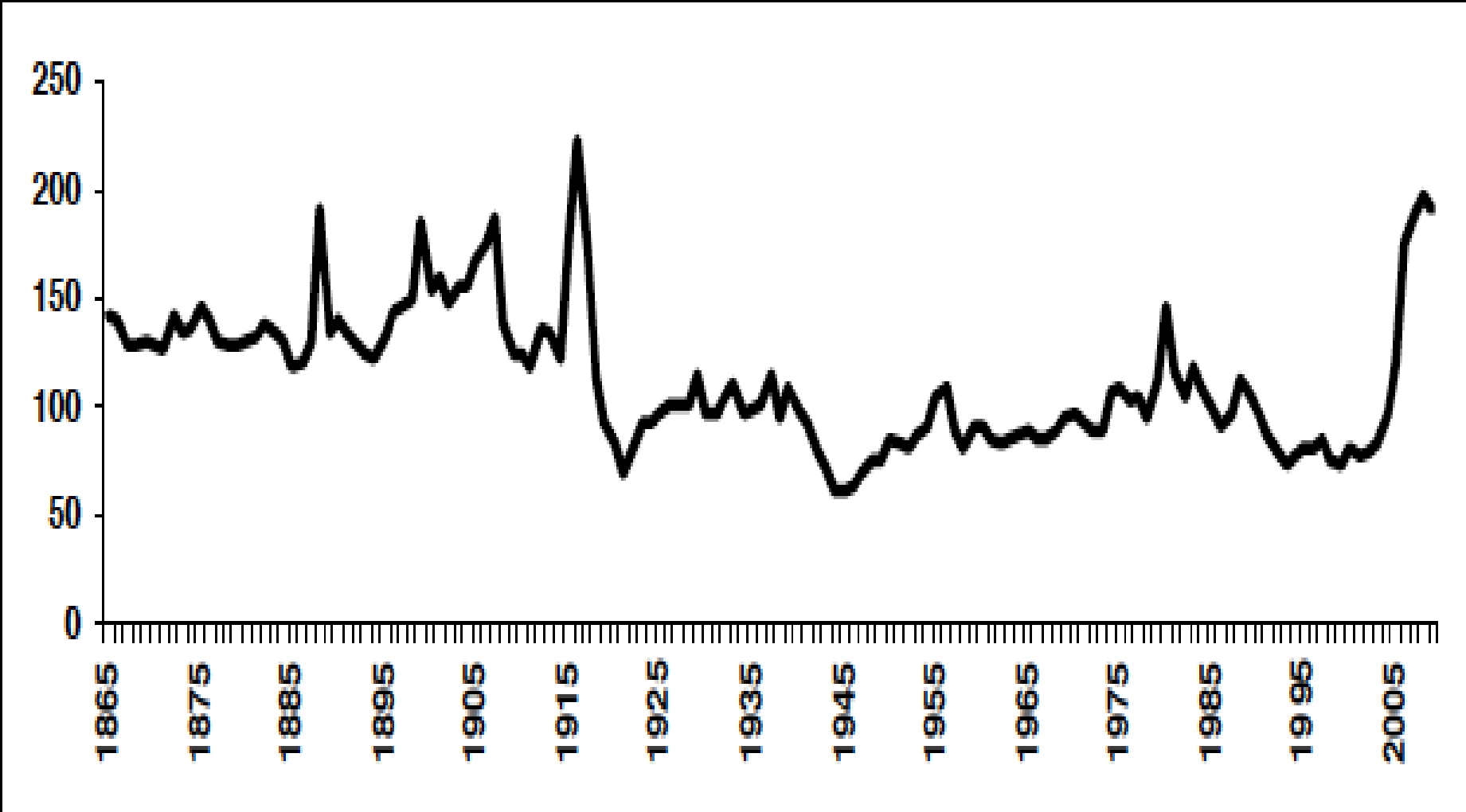
# Evolution of aggregate terms of trade

- Between 1820 and 1918 commodity prices markedly improved relatively to the prices of textiles, which was the main manufactured product imported by developing countries at the time
- The twentieth century saw a long-term decline in the commodity terms of trade (TOT) (around 1 percent p.a.)
- Decline in TOT in the twentieth century not continuous or smooth, but attributable to two downward structural breaks (after the first WW, and in the 1980s), and no upward structural breaks. These tended to occur at times of dramatic changes in the rate of growth of manufacturing output.
- The TOT trends of specific commodity categories deviated considerably from the evolution of aggregate TOT. The non-oil TOT declined strongly in agricultural and especially tropical agricultural products, while the TOT of metals more stable, and increasing recently.
- Since 2003-2008 substantial rebound in TOT. Not clear if this is a structural break like those in twentieth century. Mostly attributed to China, and not clear if it is sustainable.

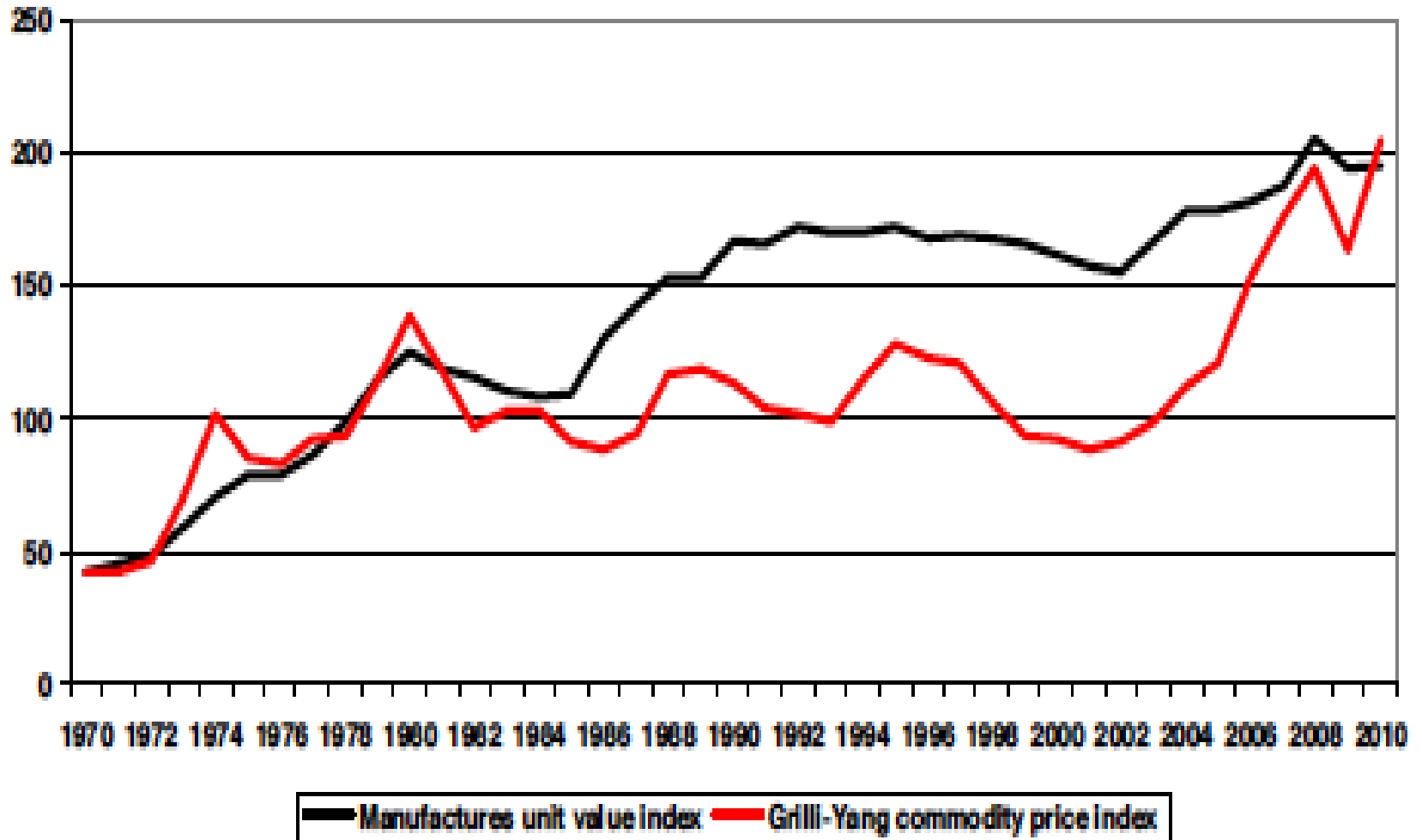
# Agriculture versus manufacturing Terms of Trade



# Terms of trade of metals versus manufactures

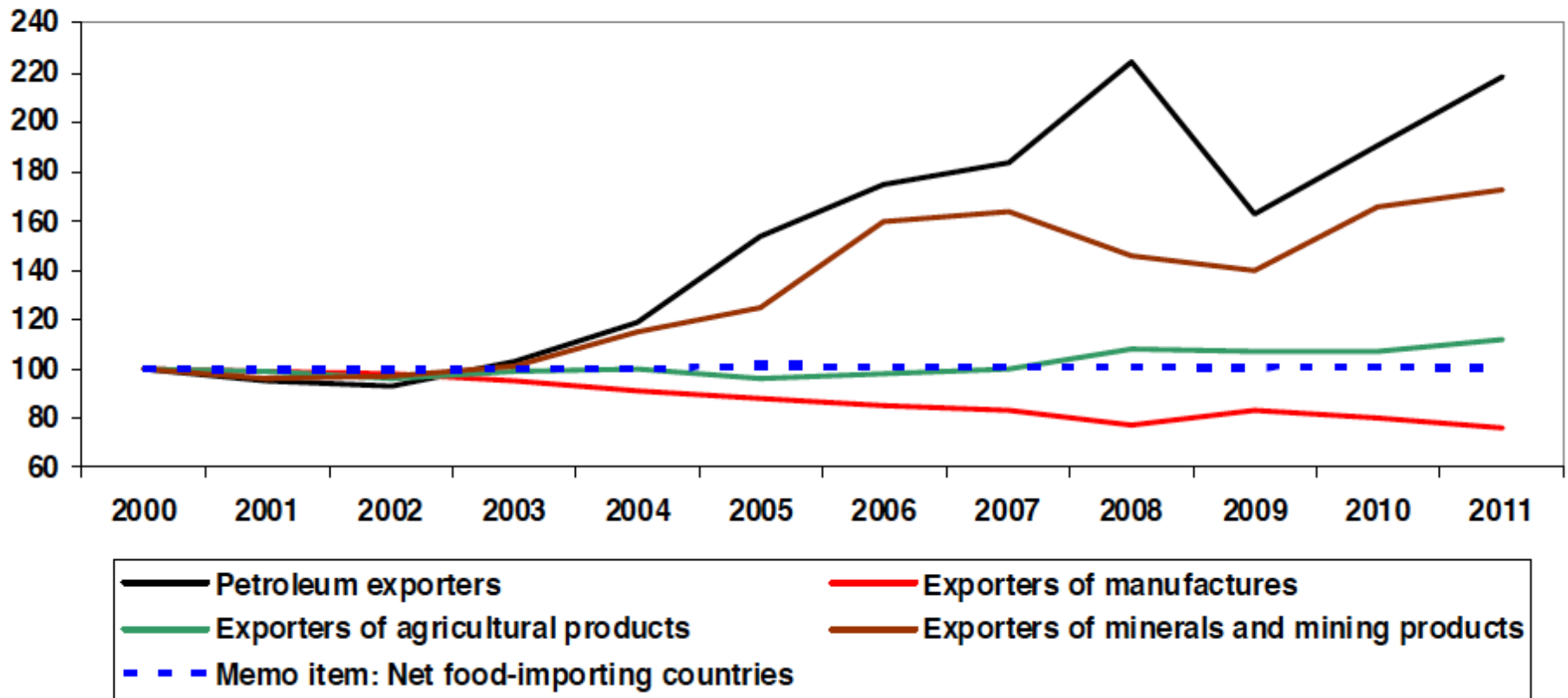


# Prices of commodities and manufactures 1970-2010. Index numbers (1977-79=100)



# Terms of trade of developing countries 2000-11, index numbers (2000=100)

## A. By trade structure



# Terms of trade of developing countries 2000-11, index numbers (2000=100)

B. By region and economic group

