While commodity exports may not be as desirable as manufactured exports, expansion of these exports may still have positive growth implications. Kavoussi finds that primary exports tend to be positively correlated with productivity increases, but that these productivity gains tend to be greater for low-income countries. Among middle-income countries, export expansion tends to be more beneficial for those economies that switch to exports of manufactured goods.[37]

This evidence underlines the importance of export diversification as a trade strategy. Diversification of exports is also considered important for the same reason that diversification of investment portfolios is recommended by money managers in order to reduce the risk due to the volatility of any one asset. Export diversification tends to protect a country from the international price swings of any one exported product. This is especially true of commodity exports, since prices of these goods tend to be more volatile than manufactured exports. Furthermore, over the longer-term, the terms of trade tend to move against those countries which are dependent on raw material exports. There is also evidence, however, that the terms of trade may have moved against many manufactured goods exported by developing countries. The argument is that, as they move through the product cycle, manufactured goods become more like commodities.[38]

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manufactured goods. If memory serves, he used the example that Canada exported apples and imported apple sauce.

[37]Kavoussi, op. cit.

[38]Between 1900 and 1986, the prices of non-fuel commodities fell by about 40%, or 0.6% per year, relative to the price of manufactured goods. For all commodities (including fuels), the relative price decline was about 35%, or 0.5% per year. The usual caveat applies that such relative price index movements over time do not take into account qualitative differences in products. For details, see Enzo R. Grilli and Maw Cheng Yang, "Primary Commodity Prices, Manufactured Goods Prices, and the Terms of Trade of Developing Countries: What the Long Run Shows," *World Bank Economic Review*, Vol. 2, No. 1 (January 1988), 1-47. Grilli and Yang try to put a positive spin on these statistics, however, by noting that, although the barter terms of trade have moved against commodity exporters, the income terms of trade may have benefitted these countries owing to increased exports which more than compensated for the relative price declines. They speculate that this quantity increase could be due to productivity increases, or intensive development of raw material exports. However, if it is due to extensive development of these resources, the countries have been harmed by the decrease in their commodity terms of trade. On declining terms of trade against LDC manufactured exports, see Matthias Lucke, "Developing Countries' Terms of Trade in Manufactures, 1967-87: A Note," *Journal of Development Studies*, Vol. 29, No. 3 (April 1993),