Primary Exports, Manufactured Exports and Export Diversification

Developing countries which are primary commodity exporters are subjected to the volatility of the world's commodity markets. Often commodities are subject to low demand elasticities. This implies that as international commodity prices increase, world demand for the commodity will not decrease substantially, allowing primary commodity exports to increase export revenues substantially in periods of great international demand. When commodity prices are depressed, by contrast, export revenues also decrease dramatically.[35] In addition, commodities tend to have low supply elasticities over the short to medium-term which means that production cannot be increased during international bull markets. Nor can production be decreased when prices are low. These demand and supply elasticities conspire to make international commodity prices very volatile and thus subject a number of developing economies to wildly fluctuating export revenues.

Manufacturing exports, by contrast, tend to have relatively stable prices since production can be altered depending on market conditions. In addition, manufactured goods tend to be differentiated. Thus, shoes from Brazil, leather furniture from Italy and wine from France all have demand which is largely due to product differentiation. This means that different prices can exist for products that are only marginally different. This, of course, does not occur to the same degree in commodity markets. If tin or aluminum is priced cheaper in one country, another country will not be able to sell its production. Demand for French wine, however, will continue to be strong, despite its moderate price fluctuations. In addition, manufactured exports tend to have a larger domestic value-added than basic commodity exports.[36]

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[35]Hans W. Singer and Patricia Gray, "Trade Policy and Growth of Developing Countries: Some New Data," *World Development*, Vol. 16, No. 3 (March 1988), 395-403, conclude that the correlation between export-orientation and growth appears to be strong only under favourable market conditions. Thus, outward-orientation cannot be considered as a universal recommendation for all countries under all types of conditions. Even when global demand conditions are favourable, countries which are industrialized tend to benefit more than primary commodity-oriented economies.

[36]Consider the simple example of breakfast cereal which uses grains imported exclusively from a developing country but the final product is produced exclusively in a developed country. A box may retail for $3.00 but only contain $.50 worth of imported grains. The value-added for the developed economy would then be $2.50. Harold Innis used a similar argument when he described the Canadian economy as a "staple economy," since it exported raw materials and imported