

## Coffee as a global commodity

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### 1 Introduction

Coffee is the second largest traded commodity (after oil) in the world. The market for take-away coffee<sup>1</sup> is worth \$ 100 billion dollars at present. This market has trebled over the past decade <sup>2</sup>. The export of coffee (in income) doubled in the past 5 years alone (see the available database at <http://comtrade.un.org>).

All coffee is grown in the global south of the world and is mostly consumed in the global north. At present, Europe is the largest consumer of coffee with nearly 40% of the global consumption. The US and Japan account for 24 % and 10 % of the global consumption. (for details see e.g. FAO 2002 and the comtrade data)

An estimated 25 million small-scale farmers are involved with producing coffee around the world. Total coffee production amounted to 7.8 million metric tons in 2006. Nearly \$ 10 billion worth of coffee was exported<sup>3</sup> from Latin America, Africa, and Asia, mostly to Europe and North America. Brazil, Columbia, and Vietnam were the main exporters with market shares of 30 %, 15%, and 5 %, respectively (e.g. comtrade data). In addition, many African countries are important exporters of coffee. In particular, coffee is the main (more than 50 % of their total exports) export earner of Uganda, Rwanda, Burundi, Ethiopia, and Burkina Faso. Coffee also account for more than 25% of the exports of many central American countries like El Salvador, Honduras, and Guatemala. This also means that fluctuation in international

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<sup>1</sup>'Take-away' coffee refers to coffee sold in retail. It doesn't include the market of coffee sold in cafes.

<sup>2</sup>see e.g. <http://news.bbc.co.uk/2/hi/business/6637995.stm>

<sup>3</sup>in free-on-board (fob) prices

coffee prices has a much greater impact on their economies.

## 1.1 Brief history of Coffee

The origin of coffee can be traced back to 1000 AD to Ethiopia. Arab traders are thought to have brought it to North Africa, from where it spread to Asia and Europe. Coffee's spectacular rise as a commercial commodity started with large-scale plantations in Latin America in the late 18th century. The plantations were run using slave labour from Africa.

By the end of 19th century, Brazil commanded more than 70 % share of the world market. Large-scale coffee plantations had also been introduced by imperial Europe in much of the tropical world under their occupation. And the largest market for coffee was the US which consumed 50% of the world exports by the eve of the second world war.

## 1.2 Coffee prices in past hundred years

The time-series of coffee prices<sup>4</sup> in the past one hundred years appears to show the familiar jagged hills and valleys expected of a commodity traded in a market (Deaton 1999). However, there are many noteworthy features of this time-series, which warrant further analyses:

- (1) Coffee prices rise in response to high demand during the first world war and remained high with small fluctuations till late 1920s
- (2) Prices fall during the great depression starting 1929 and continue to remain low till 1950. This is surprising as, inspite of the lose of many

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<sup>4</sup>(a) Price of coffee throughout this essay refers to the real price and not the nominal price. (b) coffee price is generally defined as weighted average of four traded varieties of coffee. Three of these varieties fall under the broad category Arabica. These varieties are considered superior and are mostly grown in Latin America. These varieties comprise 70% of the world trade. The other variety is Robusta and is mostly grown in Africa and Asia (e.g. Fitter & Kaplinsky 2001), (c) Definition of 'coffee price' is ambiguous. For exported coffee, it could mean free-on-board (which includes production costs and export duties) or cost, insurance, freight (CIF), which is the importer's cost minus the import duty. An additional complication is that these two prices could be denominated in (atleast) two different currencies. The coffee price, most relevant for our considerations, unless otherwise stated, in this essay, is the price of coffee beans in the US dollars on the New York coffee, sugar, and cocoa exchange (CSCE).

markets in Western Europe, the net demand for coffee rose owing to increased demand in the US during the second world war.

- (3) Prices rise sharply during 1950s, partly owing to increased demand in Western Europe and the Korean war.
- (4) Prices fall to the level of 1900 prices by 1965.
- (5) The highest peak in the time-series is seen to occur in 1975 and it lasts roughly five years. The peak prices during this period reach a value roughly 2.5 times the prices in 1900. This was in response to severe crop failure in Brazil and as the coffee trees take three to four years to mature, this price rise is expected to remain high for many years.
- (6) Prices began to fall in early 1980s. With minor rise in mid 1980 and early 1990 owing to crop failures in Brazil, the prices have continued to fall and reached a value in 2005 which was nearly half the prices in 1965, or, to get a longer-term perspective, half the prices in 1900.

Is such a pattern expected for a commodity whose demand has continued increasing during this entire period? The answer to this question depends on how the prices of other commodities, especially those bought in lieu of coffee, varied during this period. This issue is crucially linked to the concept of 'terms of trade' of primary products exported from the tropical south to the global north.

## 2 Terms of trade of primary products of the south

During much of the colonial period, the colonies exported primary products like sugar, coffee, wheat, rice, cocoa, rubber, cotton, jute, palm-oil, etc. to the imperial powers and imported their industrial products. This pattern persists, with a few exceptions (more on it below), up to the present. Terms of trade is defined as the fractional percentage difference between the prices of products exported and imported by a country.

Available data shows that countries producing primary products have suffered a deterioration in terms of trade for more than a century. Emmanuel (1971) notes:

The series published by the United Nations showed a deterioration of the order of 40 percent in the terms of trade enjoyed by the countries producing primary products between the end of the nineteenth century and the eve of World War II. They confirmed the studies by Schloete, Silverman, Imlah, and the Board of Trade, covering a shorter period 1880-1913, in which the deterioration of about 20 percent was already apparent

In the era following the period of decolonization also this trend has continued unabated. Nkrumah (1965) argued (see also Kaldor 1976) that the prices of primary commodities (excepting oil) fell by 33.1 percent between 1951 and 1961 and at the same time prices of manufactured goods rose 3.5 percent (within which the machinery and equipment generally exported by imperial nations rose 31.3 percent). In more recent times, prices of most raw material like coffee, cocoa, rubber, etc. fell in the past 25 years. According to the UN Conference on Trade and Development (UNCTAD) data, average yearly decreases in the prices of primary commodities, mostly exported by the third world countries, between 1977 and 2001 were 2.6% for foodstuffs; 5.6% for tropical beverages; 3.5% for oilseeds and oils (see e.g. Millet & Toussaint 2004). UNCTAD (2004) summarizes the declining terms of trade of primary commodities:

Today the Prebisch-Singer thesis about the deterioration of terms of trade and long-term decline of commodity prices is more valid than ever. For instance, in 2002 the price index of agricultural commodities deflated by the price index of manufactured exports of industrial economies in US dollars was one half of the same index in 1980.

For tropical beverage and food, the decline was even steeper, with corresponding indices decreasing by 63% and 56% between 1980 and 2002...

Coffee shared the fate of other primary commodities. It suffered a 50% drop in terms of trade from 1965 to 1995, but much of this drop occurred between 1985 and 1995. After a minor recovery, the terms of trade reached the level of 1995 in 2000 (e.g. Fitter & Kaplinsky 2001). UNCTAD (2004) captures the implications of this state of affairs:

For example, between 1999 and 2002, coffee-producing countries and West African cotton-producing countries suffered opportunity costs of

\$ 19 billion and \$ 1 billion respectively compared to the situation that would have prevailed had prices remained at 1998 levels

In summary, the primary products producing countries have suffered both a deterioration in the absolute real prices of the commodity they export and in the terms of trade. It should be noted that these two concepts are different and may have different implications for various groups of people from countries exporting primary commodities: the former directly impacts the producer and other people involved in the trade but the latter affects the macro-economic stability by worsening the balance of trade.

## 2.1 Commodity chain analysis

Further issues related to the implications of the coffee trade for the producing countries are revealed by studying the break-up of coffee retail price received by various participants in the commodity chain.

In the coffee trade from Central America to Europe in early 1990s, the wage of the coffee plantation worker was found to be 5% of the final consumer price. The break up of the commodity chain shows the following pattern: Wage of worker on coffee plantations 5.1% (producer); Payment to owner of coffee plantation 8.5% (owner); Exporter-Middleman 3.7% (shared by locals and europeans); export tax 17.2% (local government); overseas freight 1.4% (mostly european shipping companies); duty 1.8% (european governments); Coffee tax 18.4% (european governments); Value-added tax 6.1 % (european governments); Importer 7.6% (european); cost of roasting 6.5% (european); Retailer 23.7% (european); Retail price in Europe 100%. (for details and references see [http://en.wikipedia.org/wiki/Unequal\\_exchange](http://en.wikipedia.org/wiki/Unequal_exchange)). It should be noted that roughly 30 % of the value generated remained in central America and 70% was raised in Europe. Choussudovsky (1998) estimated that only about 10% of the value of coffee sold in the US in 1990s accrued to the producing country (see also Somel 2004).

The evolution of the distribution of income between the producing and the consuming countries shows that between 1965 and 2000, the share of producing countries in the final retail price of coffee has fallen steadily from roughly 35% to 20% (Fitter & Kaplinsky 2001). Much of this fall has occurred since 1980s. This means that much of the burden of the falling prices of coffee has fallen on the producing countries.

The following table from UNCTAD lends further support to this argument (taken from Gilbert 2006).

Table 1: Value shares, in percentage, for Robusta coffee producers, 1980-1988 and 1999-2003

	Brazil	Ivory Coast	Indonesia	Uganda	Vietnam	Average
1980-1988	14.5	17.5	19.2	16.5	43.6	23.8
1999-2003	10.5	7.2	7	12.2	8.6	9.1

During this period, the retail prices of coffee in the North have only seen a modest decline (e.g Gilbert 2006). Gilbert (2006) showed that the real wages of workers involved with coffee trade in the North rose during the same period when the share of the producing countries in the final retail price sharply fell. This constitutes an example of how 'multiplier' of growth is passed from the South to the North.

### 3 Economic theory on coffee prices

Germane to this analysis is the obvious fact that coffee is grown solely in the south<sup>5</sup>. South mostly imports manufactures from North in lieu of commodities like coffee. However, the production of manufacture can be transferred to South. There is, therefore, a basic asymmetry in the trade involving such commodities. This fact has been recognized and appreciated by such disparate economic thinkers as two of the great capitalist economists Marshall and Keynes and the famous Russian communist Bukharin. Marshall for instance foresaw a day when primary-goods producing backward countries would possess an "unassailable monopoly" in international bargaining (for more discussion see Emmanuel 1972).

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<sup>5</sup>A small, and a completely negligible fraction of the global production, amount of coffee is grown in Australia and Hawaii. This should be contrasted with other tropical products like sugar-cane and Indigo. Europeans learnt to make sugar from beet-root and became self-sufficient in 1980s, after ravaging a large part of the Caribbean, Latin America, and other tropical colonies for sugar for nearly 300 years. Indigo was one of the main colonial exports till the beginning of 20th century, until it was rendered redundant by synthetic dyes.

During the colonial period, European economists invoked the principle of comparative advantage to justify the trade pattern between the colonies (and relatively non-industrialized countries of Latin America) and the industrialized countries of North Europe. They urged free trade between colonies and imperial countries with colonies specialising in exports of raw material needed for the industries of the imperial countries and imperial countries exporting the finished goods to the colonies.

Long-term worsening of terms of trade of primary products exported by erstwhile colonies clearly shows this principle doesn't work, at least for this trade. Even a cursory look at the development of colonial economies shows colonies gained little from trade with the imperial powers. However, proponents of this principle argued that the period of colonialism also resulted in a wealth flow from the colony to the imperial countries. They argued, correctly, that conditions that existed under colonization were not conducive to free and fair trade. However, the same advice was given to the colonies once they became 'free', presumably under the assumption that the new conditions were better for free trade. However, as discussed above, the terms of trade over the past hundred years are quite immune to the change of political status of ex-colonies. One can forsake the principle of comparative cost citing reasons of its inapplicability the real conditions that exist in the world (see e.g. Emmanuel 1972 and Amin (1974) for elaboration of this view). Or else one could seek other reasons for deterioration of terms of trade suffered by producers of primary products.

In 1950s Prebisch (1959) and Singer (1950) speculated that the third world countries producing primary products suffer from worsening terms of trade as these products have high price elasticities. These arguments have been used by many, especially development economists and policy makers the world over, to emphasize the importance of rapid industrialization of ex-colonies and other third world countries. A more wide-spread view among main-stream economists is that the prices of commodities exported by developing country are low owing to lower wages, which are a consequence of the presence of a large unemployed work force in developing countries (e.g. Deaton 1999 and references therein)<sup>6</sup>.

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<sup>6</sup>Another variant of this view was expressed by the well-known economist Paul Krugman: "The point is that third world countries aren't poor because their export workers earn low wages; it's the other way around. Because the countries are poor, even what looks to us as bad jobs at bad wages are almost always much better than the alternatives" (New York Times, April 22, 2001). It should be noted that this view is completely non-sensical

The thesis of Prebisch and Singer has turned out to be hard to verify, even though it has received a lot of attention (for details and references see Deaton 1999). The theoretical argument of main-stream economists on the other hand is too narrow in its outlook to unravel the complete story. It cannot be denied that the price of a commodity is proportional to the cost of the labour. In Africa, greater and ready availability of labour allows labour costs to be reduced, which might reflect in the price of the commodity. However, even if it is true for a local commodity, it does not necessarily hold for an exported commodity. It doesn't take into account the aspiration either of the local bourgeois (exporter, coffee roaster, etc) or the government. Local bourgeois might be content to make good profits using the low cost of labour and allow the multinationals from north to garner a lion's share of the profit. But why should they, especially if they have their government's backing? In the case of coffee, most of the coffee is exported in its raw form (beans) and further value addition (roasting, gridding, etc) is all done in the North. Would a local bourgeois involved in coffee trade in Brazil be content with this pattern? Brazilian coffee companies in 1960s tried their best to directly sell instant coffee <sup>7</sup> in the US markets. Though they managed to get a foothold in the US market they were accused of 'unfair trade' practices by the US state department. This situation culminated in the International Coffee Agreement in 1968; Brazil was forced to increase export duties on instant coffee and assure the sale of coffee beans to the US market (Talbot 1997) (It is also of interest that in 1968 Brazil was a military dictatorship with the backing of the US.) These arguments can be used to invert this theory. If Brazil could add value to coffee and earn rights to directly sell it in the US, not only would its income share go up but also the coffee industry in Brazil might become more capital-intensive. These changes could all drive the cost of labour up. Low labour costs in Africa are more indicative of the existing international division of labour than of any purely economic phenomenon.

Emmanuel (1972) has argued however that the worsening terms of trade has not so much to do with what is exported but who produces it:

The “worsening the terms of trade for primary products” is an optical

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with respect to the export of tropical commodities, because no one in the first world can get a job in processing coffee unless it is first produced in the South!

<sup>7</sup>roasted coffee cannot be exported as it doesn't last long enough for it to be shipped over long distances. Instant coffee, first used in the US civil war in 1860s, however lasts much longer and therefore can be exported

illusion. It results from a mistaken identification of the exports of the rich countries with the export of manufactured products and the exports of the poor countries with the export of primary products.

The copper of Zambia or the Congo and the gold of South Africa are no more primary than coal, which was only yesterday one of the chief exports of Great Britain; sugar is about as much “manufactured” as soap or margarine and certainly more “manufactured” than scotch whiskey or the great wines of France; before they are exported, coffee, cocoa, and cotton (especially cotton) have to undergo a machine processing no less considerable, if not more so, than in the case of Swedish or Canadian timber; petroleum necessitates installations just as expensive as steel; bananas and spices are no more primary than meat or dairy products. And yet the prices of the former decline while those of the latter rise, and the only common characteristic in each case is that they are, respectively, the products of poor countries and the products of rich countries.

Textiles were formerly among the pillars of the wealth of the industrialized countries, and Britain’s warhorse; since they have become the specialty of poor countries, their prices hardly suffice to provide a starvation wage for the workers who produce them and an average profit for the capital invested in their production, even where the technique employed is the most up-to-date<sup>8</sup>. Must we suppose that by an amazing coincidence at the same moment when the change of location took place there occurred a reversal in the elasticities of demand?

And these prescient comments of Emmanuel regarding the export of finished goods from the third world countries have proved correct in more recent times. Fitter & Kaplinsky (2001) noted:

Between 1985, when China first became a major exporter, and 1995, the terms of trade of developing country exports declined by 20 per-

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<sup>8</sup>Commodity chain analysis of cotton shirts exported from Bangladesh to the USA shows the following break-up ([http://en.wikipedia.org/wiki/Unequal\\_exchange](http://en.wikipedia.org/wiki/Unequal_exchange)): when a dozen shirts were exported from a Bangladesh garment factory to the USA, the cost structure in US dollars was found in 1992 to be as follows: Materials and accessories (imported) \$27; Depreciation on equipment \$3; Wages \$5; Net industrial profit \$3; Factory price (one dozen shirts) \$38; Gross mark-up \$228; Retail price (per dozen) in the West, before tax \$266; Retail price including sales tax (10 percent)\$292.60 (Source: Chossudovsky 1998)

cent (Wood 1997). So, even manufacturing is no longer a protected domain—indeed the speed of their declining terms of trade is rapid by comparative standards... Wood's calculation of falling terms of trade in manufacturing exports is corroborated by a recent study of the barter terms of trade in manufactures between developing countries and the European Union, which estimates an annual rate of depreciation of 2.2 per cent between 1979 and 1994 (Maizels et al. 1998). In a further study focusing on the terms of trade in manufactures between in the US and the developing countries for the period 1981–1997, Maizels et al. (1999) conclude that “over the whole period, the relative terms of trade trend of developing countries, compared with that of developed countries, has significantly worsened. It is significant that neither of these recent studies by Maizels et al. reflect the fall in developing country manufactured export prices which followed the East Asia crisis of 1997-98

Maizels et al. (1998) also present data that shows that the least developed countries suffered a more rapid decline in manufacture terms of trade of 5.7 percent year as compared to the more developed countries from East Asia that suffered a decline of about 1.2 percent annually. The terms of trade of manufactured products exported by developing has continued worsening in the more recent past; between 2000 and 2006, the net barter terms of trade fell by 20 per cent (Trade and Development report 2007).

In other words, the developing countries have suffered declining terms of trade both with respect to commodities and manufactures, at a rate that accelerated in 1980s. The significance of 1980s to this issue will be discussed in detail below.

The commodity chain analysis shows that deterioration of terms of trade is just one part of the story. The fraction of revenue earned by the exporting countries has also fallen at a rapid rate, especially since 1980s. The naive hope of the theory of comparative cost that over long periods there would be an equalization of profit by the two trading parties has clearly not been realized.

To understand why such a trade pattern has persisted for so long one needs to look at the larger picture, especially in the past 25 years.

## 4 Political scenario of 1980s

A large number of third world countries faced balance of payment crisis in 1980s. Amin (1974) has argued that this crisis is an essential concomitant to the trade and capital exchange between the developing and the developed nations. However, the 1980s crisis was both deeper and more widespread than has generally been the case. Nearly 100 developing countries faced this crisis in the two decades starting from 1980. And this included the rapidly growing economies of East Asia. In addition, it affected adversely most parts of the economy and the crisis generally recurred in spite of strong measures taken to overcome the crisis. Only economies that were not strongly integrated in the world markets managed to prevent their balance of payment crisis from turning into a disaster e.g. India in 1981 and 1991.

Though the reasons for such a wide-spread phenomenon are necessarily complicated, it has been linked it to a sudden increase in the interest rates by the US in early 1980s (e.g. Stiglitz 2002). The debt of developing countries had multiplied by a factor of nearly 12 between 1968 and 1980. Much of the debt was granted on low interest rates during this period and its servicing remained sustainable for most countries. However, the rates of interest were variable in most cases and linked to the interest rates in Britain and North America (indexed on the Prime rate and the Libor, two rates fixed in New York and London). A sudden increase in the US interest rates (between 1980 and 1981 the real interest rate increased from 1.8 to 8.6 percent) meant the debt servicing amount suddenly increased by a factor of up to 4. This precipitated a failure on the part of many developing countries to pay their debts in time—starting with Mexico in 1982 it spread to Brazil and Argentina and to much of the rest of Latin America and Africa. Also high interest rates in the US meant that the US preferentially attracted much of the available capital in the world. And the countries facing the balance of payment difficulty and eroding creditworthiness found it increasing harder to borrow money.

In response to this crisis, developing countries trouped in droves in front of the multilateral lending institutions like the IMF and the world bank and bilateral lending institutes like the Paris and London club. These lending institutes are completed dominated by the triad (North America, Western Europe, Japan, Australia and New Zealand). And they acted in unison but prevented the developing countries from uniting by dealing with them on a case by case basis. This was in spite of the fact that they gave them the same piece of advice, which came to be known as Structural Adjustment

Programmes (SAP). The ostensible economic logic of SAP was not only to tide over the present crisis but also to ensure the developing countries can sustain their debt payments in future. Under SAP, the developing countries were asked to make their economies more 'efficient' and 'competitive' by the following set of measures: (a) reduce government intervention in economy by privatizing public sector and utilities run by the governments, (b) invite international capital with policies like high interest rates, (c) devalue currency, (d) keep inflation rate low with high interest rates and tight fiscal policies like reduction in government expenditure in development programs, (e) liberalize the capital market and banking regulations to ease flow of international capital, (f) remove currency control and make it floating, and (g) increase exports, lower export duties, and allow low-tariff import of goods and services. Many economists attribute these policies to the dogmatic adherence of the international institutions like IMF to 'free market' capitalism. But a much less charitable explanation is possible. The measures listed above enable easy penetration and domination of developing country economies on conditions extremely favourable to the international capital located in the North. SAP is more reminiscent of conditions imposed on a defeated enemy than help extended to a friend in distress. We consider here only the implications of a subset of these policies.

One of the 'advice' under SAP to the coffee producing countries was to abolish coffee boards in many African countries. Coffee boards were established during the colonial period to control the supply and trade of coffee; it was just one of the institutions of colonial exploitation (see e.g. Jamal 1993). Following independence, these boards provided important government-run intermediaries between the producer and exporters, and played, though not very effectively, the role they were supposed to play during the colonial period: protect the producer from vagaries of international markets. The dismantlement of coffee boards brought the producer face to face with the might of international monopolies with little help from his government. Nearly 70 % of coffee in the world is grown on farms of less than 5 hectares. On the other hand, the import sector is completely dominated by monopolies: in each of the processes in the coffee chain—importing (traders), roasting, and retailing—more than 60% of the market is controlled by less than 10 companies. In 1998, five transnational corporations—Altria, Nestle, Proctor and Gamble, Sara Lee, and Tchibo—were responsible for 60% of world coffee roasting (for relevant references see Gilbert 2006)

Another mechanism available to the producing countries to stabilize cof-

fee prices was the International Coffee Agreement. First signed in 1940, this agreement enabled the coffee producing countries to hold back stocks to prevent a precipitous fall in coffee prices. Under pressure from the North to forgo these 'cartel'-forming tendencies and embrace liberal 'free market' policies, this agreement broke down in 1989. Over next four years, the coffee prices reached an all time low atleast partly owing to the release of large stocks held by the producing countries in the market.

This process was accompanied with devaluation of currency and an emphasize on increasing exports to meet the balance of payment obligations. Devaluation of currency meant imports became expensive and more had to be exported to attain the balance of trade. And this requirement was imposed when the producer and to a certain extent the governments of the producing countries were sapped of their bargaining power.

To justify these policies to the producing countries, the economists of world bank and IMF gave them ridiculous forecasts of spectacular price increases (see e.g. Deaton 1999). However, the prices of primary commodities kept falling and the terms of trade did not improve. SAP ensured this was also accompanied by a falling share of profits for the producing countries. These led to another cycle of crisis which was followed by the usual accusation by the IMF that their policies were not followed properly. The next set of SAP, therefore, were more stringent than the previous ones. The cycle continues at present. Even those countries that managed a semblance of stability achieved it at the huge social cost of extreme inequality of incomes.

An over-reliance on using land for producing export crops like coffee led to serious food insecurity in much of sub-Saharan Africa. This brings us to another aspect of the international domination of the developing countries. In 1980s, the triad had a huge surplus of food grains like wheat, corn and beef in their stocks. These countries give large subsidies to the local production of agricultural commodities; it is estimated that these annual subsidies amount to nearly \$ 350 billion. However, SAP sought the developing countries to reduce subsidies on food production and open their markets to food import from the triad. This of course was in line with the policy of encouraging the use of an increasing amount of land for export crops like coffee. The import of cheap, highly subsidised food from the triad dealt a severe blow to food producers in Africa and pushed them into producing exportable crop. However, the imported food did not remain so cheap in the milieu of continual currency devaluation and the export crop did not pay for reasons already discussed above. And this resulted in the worst possible situation Africa could

find itself in: by mid-1980s Africa spent more to import food, mostly from the triad, than they earned by exporting raw products. Moyo (2002) shows, from the data of the Food and Agriculture Organization (FAO), that the excess of agri-imports over agri-exports of Africa amounted to approximately \$ 3.8 billion in 1990 which increased to more than \$ 5.5 billion by 2000.

As the food crisis deepened, an increasing number of farmers in Africa moved away from the production of cash crops to subsistence crops. It should have resulted in an increase in prices which might have lured some farmers back to production of cash crops. But that did not happen. This is linked to the power of international monopolies to open another source to undermine the bargaining power of the existing one. For the case of coffee, Vietnam was brought into the fold of international capital only after the normalization of its relation with the US in 1995. However, in such a short period, it has risen to become the third largest exporter of coffee <sup>9</sup>.

In addition, SAP enabled international capital to buy companies of developing countries at throw-away prices. International capital wholly or partially owns many important production or trading companies in the coffee producing countries. For instance, Igaucu, the second largest coffee producer in Brazil, is 40% owned by Marubeni, a Japanese company. This process of take-over by transnational corporations accelerated in the economic milieu of 1980s (for more details see Talbot 1997).

Transnational corporations are also significant players in the production and retail sale of coffee in the coffee producing countries, e.g. Nestle has important presence in Brazil and Columbia. The backward integration of transnational monopolies of the North is a far more successful venture than the attempted forward integration of the companies of the South. A part of the reason for this of course lies in the initial advantages earned during the colonial era. As an example, Nestle dominated coffee production in the colonial Ivory Coast till 1960s. Ivory Coast was the largest producer of Robusta coffee at that time. Little changed after the independence of Ivory Coast as breaking this pattern might have deprived Ivory Coast of much-needed foreign exchange.

As noted by Talbot (1997), most transnational companies do not attempt to integrate with the local economy, for instance they import most of their

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<sup>9</sup>During the second world war, the price of coffee was prevented from rising by opening new sources in Africa (Jamal 1993). Imperial powers in Africa also reduced prices paid to the producers by fiat (Rodney 1971)

equipment and provide very limited benefits to the local economies. Many hold that most of the profits of multinationals are repatriated to their home countries, especially using methods like 'over' and 'under-charging' (see e.g. Millet & Toussaint 2004).

## 5 Conclusions and further reflection

The foregoing analysis can readily be generalized to other tropical commodities like Tea, Cocoa, or tropical fruits like Banana. What they have in common with coffee is that they are produced solely in the South but consumed largely in the North. And their trade pattern, as noted above, is similar to coffee. Such commodities provide the clearest illustration of the ongoing economic exploitation inherent in the commodity trade between the global North and the global South. However, as already discussed above, these commodities do not necessarily provide a comprehensive account of the trade that underlies this exploitation.

Why don't countries of the south attempt to break away from this pattern? There cannot be a simple answer to this question. For one, this pattern is beneficial to a part of the ruling classes of the developing countries. This fraction of the ruling class has also the backing of international finance, which prolongs their hold on power in spite of strong local resistance.

The traditional class of developing countries which collaborates with the trans-national companies based in North and their governments is the class of exporters of raw products. At first sight, it might seem counter-intuitive to expect this class to bow to the wishes of the North. Does this class not find itself at the receiving end owing to the falling prices of commodities made worse by a falling fraction of their profits? One might explain it away by pointing to the power differential between this class and the financial might of importers. One might argue that this class is forced to lower its profit margins for the fear of losing its markets in the North. While the veracity of this observation cannot be denied, North is generally loyal to the class that supports it in the South. And this is immediately reflected in the dual policy of currency devaluation and inflation control under SAP. The effect of devaluation can easily be understood by a simple numerical example: a devaluation of rupee by a factor of 2 vis-a-vis dollar would mean that an exporter will now earn twice as much in rupees for exporting coffee, so long as its international price in dollar remains the same.

However, devaluation of currency is expected to be accompanied by inflation in the local economy as all imports become more expensive. So it is not clear the gains of the exporter are real<sup>10</sup>. However, the currency devaluation is accompanied by the policy to control inflation by cutting government expenditure, tight fiscal policies like balanced budgets, and in some extreme cases by freezing wages and prices of commodities. For instance, in 1994, the countries of the Franc zone in Africa devalued their currency by a factor of 2 and froze wages at the same time, in accordance with the edicts of SAP. Similar policies have been followed, at one time or another and with some variations, by nearly all countries that faced balance of payment difficulties in the past 25 years.

This, translated into relative gains of producers of coffee and exporters of coffee, means the following: Exporter income increase owing to devaluation is real as the inflation is forced to remain low. However, the producer, who sells the commodity only locally, gets no share of that increased income as a result of exactly the same policy! When such policies succeed in bringing 'stability' in an economy, it is at the cost of great inequality of incomes. These policies originate from economic growth models that propagate the belief that money should be put in the hands of those who will invest it and not in the hands of those who will spend it only for consumption (for detailed discussion see e.g. Stiglitz 2002).

In the recent past, the most successful case of a country attempting to break from this vicious cycle of exploitation is Venezuela. Its charismatic president Hugo Chavez is a bitter critic of international finance and has even withdrawn from multilateral bodies like IMF and world bank. He is the prime mover behind the recently inaugurated Bank of South; the bank's charter emphasizes its social role in development in sharp contrast with the profit-seeking banks of the north. Venezuela also financially assisted many countries like Brazil, Argentina, Ecuador, and Bolivia to break from the financial clutches of IMF.

Venezuela is one of the largest producers of oil in the world. And rapidly rising oil prices earns it sufficient income to spend on social programs and to help neighbours. However, Venezuela is strongly integrated in the international markets owing to its status as a major oil producer. More than 60

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<sup>10</sup>To understand this mechanism, consider the extreme case: all the prices and all the incomes increase by exactly the same factor as the factor by which the currency has been devalued. In this case, nothing has changed in the economy!

% of its exports are to the US. Chavez has managed to extract concessions from oil companies of the North and has increased the share of state-owned oil companies. However, Venezuela still depends for much of its oil-refining technology on the north.

Ever since oil production started in Venezuela in 1920s, the country has been strongly integrated in the global markets dominated by the north. Politically, the local ruling class survived and thrived owing to its connection with the hegemons of the north like the US and England. And this export-oriented approach caused severe distortions in the economy. For instance Venezuela depends on imports for 70% of its food, mostly from the north. In the past it acted as a weapon in the hands of the ruling classes as they controlled this import. At present it limits the revolutionary zeal of the Venezuelan government. The present government understands the implications of this basic dependence and is trying to overcome it by forming state cooperatives in food acquisition and supply and by effective land reforms. But it might take longer than the next food crisis which could be exacerbated by the private interests funded by the US for political mileage or the next military coup. The erstwhile ruling elite of Venezuela have already tried to remove Chavez in a coup in 2002.

Venezuela is a credible example of an attempt to break from the domination of the north. But as discussed above it remains vulnerable. Being oil-rich, Venezuela is in a privileged position vis-a-vis most other developing countries. However, the difficulties it faces and changes it brings will be a source of desperation or hope in other developing countries.

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