The Relationship between Trade in Commodities and Poverty

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International Task Force on Commodities

"…convert the vicious cycle of poverty …
into a virtuous cycle of growth…"

Millennium Development Goals

Goal 1: Eradicate extreme poverty and hunger (by 2015)

Target 1

Reduce by half the proportion of people living on less than $1 a day

Target 2

Reduce by half the proportion of people who suffer from hunger

Millennium Development Goals

…no mention of commodities

…or even agriculture

Extreme poverty and hunger

- 1.2 billion people live on less than $1 a day
  - 75% of these live and work in rural areas
- Of the world's hungry people:
  - 50% from smallholder farming communities
  - 20% are rural people without land
  - 10% in communities that depend on herding, fishing or forests
  - 20% in towns and cities

Where are poor rural people?

- Most live in areas that are resource-poor and risk-prone or remote
- Often in arid or semi-arid zones or in steep hill-slope areas that are ecologically vulnerable
- In Brazil, the Sahel, the Philippines, Indonesia, Bangladesh, South Asian highlands, Andes…

National income ratios (GDP per person)

57 countries of “high” human development to 32 countries of “low” human development (2003):

ratio 70:1

On “purchasing power parity” basis:

ratio 24:1

Ratio of richest country to poorest:

713:1

…in 10 of the 32 countries of low human development, GDP per person is lower than in the 1970s.

For 25 years, only wood prices rose

Commodity prices declined by 2.8% p.a. (in constant US$) in 1977-2001

- Coffee -5.1%
- Cocoa -6.9%
- Cotton -3.4%
- Palm oil -3.7%
- Bananas -0.6%

- Only wood prices rose (tropical sawnwood +2.1%)
- Since 2001, metal and crude oil prices have also risen

LDCs' commodity exports

Loss of potential value from 1980-2001, due to price declines and loss of market shares:

- 79% in coffee
- 92% in rice
- 86% in copper

LDCs and mineral exports

- Share of world exports supplied by LDCs that export predominantly mineral products fell by 84% from 1980-2001
- They have the highest incidence of poverty:
  - 82% of population with <$1 a day
    - 94% with <$2 a day
- Civil conflicts have occurred in three of them.

(They are Central African Rep., D.R. of Congo, Guinea, Liberia, Niger, Sierra Leone and Zambia.)

Ethiopia's coffee exports

- 1998 volume: 115,000 tonnes
- 2001 volume: 80,000 tonnes

- 1998 value: **$380 million**
- 2001 value: **$135 million**
  - decline of 64 per cent

Terms of trade

African countries' terms of trade have deteriorated by more than 25 per cent

- I.e. they have to export over one-third more in order to import the same amount as in 1980

Who's secure?

Desire for **energy security** in developed countries

- To reduce dependence on imports

- And **food security** in least developed countries?

Why countries fall behind under globalisation

1. Small size of domestic populations and markets
2. Remoteness from world markets, e.g. because landlocked;
3. Dependence on a small number of primary commodities for exports;
4. Predominance of rural sector and *rural* poverty;
5. Low capacity for economic diversification;
6. Lack of international competitiveness due to supply-side constraints

But has African agriculture failed?

African production of non-traded staple foods:

- **Cassava**: 70m tons in 1990, 102m in 2003
- **Millet**: 10.6m in 1990, 14.8m in 2003
- **Sorghum**: 11m in 1990, 22.3m in 2003
- **Yams**: 20m in 1990, 38m in 2003

- How can this translate into reduced poverty, and into export markets?

Global supply chains

E.g. **coffee**:

- Each of the two largest roaster companies purchases **15m bags** per year
- The average coffee farm sells **4.5 bags** per year

Who's in the driving seat?

- Buyer-driven supply chains
- Operate through Supply Chain Management
- What happens if supplies are in surplus?
  - …Supply Management?

…and if markets are global, what about competition policy?