Teaching File

Crisis in a coffee cup?

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Bill Pritchard provides information and suggests activities for investigating the origins and global impacts of coffee production

Export-oriented agriculture and developing countries

For the past quarter of a century, developing countries have been encouraged to pursue export-oriented development as a strategy to generate increased living standards. Under this model, countries open their economies to international trade and investment, and expand their export industries with the goal of earning foreign exchange. These strategies have replaced earlier import-replacement models, which proposed that developing countries should protect their domestic economies by controlling external trade and investment.

In countries with robust manufacturing sectors and with opportunities to access the affluent Western markets of Europe, North America and Australia, the adoption of these strategies has seemed to provide a route to rapidly-rising living standards. The so-called 'four tiger' East Asian new industrialising countries (NICs) of Hong Kong, the Republic of Korea (South Korea), Taiwan and Singapore achieved high rates of economic growth in the 1970s and 1980s following their pursuit of export-oriented development.[1] More recently, significant improvements in per capita gross domestic product (GDP) in the 'Asian giants' of China and India have been associated with economic liberalisation and the replacement of import-replacement development models with export-oriented ones.

Yet for these successes, important qualifications remain. For countries that tend to rely on agriculture rather than manufactured exports, the adoption of export-oriented development has proved a more uncertain policy stance. Even after 25 years, there is no group of 'NACs' (new agricultural countries) to rival the NICs as a model for emulation. Although it is difficult to generalise on this complex and contested subject, there is emerging evidence that the export-oriented development model works differently for agriculture than it does for manufacturing. First, the pursuit of export-oriented development in agriculture can produce narrow and uneven economic gains, with large agribusiness corporations frequently receiving the lion's share of financial benefits. Second, large-scale monocultures for export-markets can produce significant environmental costs in sensitive ecosystems. And third, the export-oriented development model may have negative effects for the food security of rural populations in developing countries, because national food self-sufficiency is replaced by a system in which export earnings are required in order to purchase foodstuffs, which themselves, are often imported.[2]

All this is not to say that agro-exporting does not produce some benefits for developing countries. It most certainly does. However, what needs to be emphasised is that as a general strategy for national development, the existing track record of export-oriented agricultural development leaves much to be desired.

These issues are brought into focus by the recent history of the global coffee industry. Coffee beans grow on trees that thrive in altitudes of 700 to 2000m above sea level in tropical and sub-tropical climates. Most of the world's coffee is exported from tropical countries to the affluent nations of Europe, North America, Japan and Australia. Brazil is the world's largest coffee exporter, and the three largest export nations – Brazil, Vietnam and Columbia – account for over half of world coffee exports (Table 1).

At face value, coffee exporting would seem to be a tailor-made strategy for many developing countries: because of their climates, richer countries cannot grow this product competitively, but they have considerable affluence with which to purchase coffee. However, over the past 15 years, the global coffee industry has turned into a development nightmare. World prices have plummeted and, as this has occurred, the livelihoods of an estimated 20 million people have collapsed. Why has this happened, and what does this tell us about the use of export-oriented development as a national strategy?

A world in your coffee cup

During the past few years, urban areas in Australia and the UK have experienced an explosion in the number of cafés being opened. Most of these are opened independently, however some trans-national franchised chains such as Starbucks and Gloria Jean's have been part of this phenomenon. Even McDonalds has opened McCafés as a way of getting into this trend. On the basis of these developments – and the Australian and UK experiences have followed closely on North America – one could imagine that coffee sales have been booming over the past decade.

Yet the café culture's impact on the global coffee industry is deceiving. Despite the very visible increase in public coffee consumption over the past decade, overall demand for coffee has grown only slowly. Evidently, what has occurred in markets such as Australia and North America during the past few years is that the total quantity of coffee consumption has not increased significantly, but people's spending on the product has grown because of different consumption modes. For example, replacing cheaper instant coffees with roasted beans, and replacing home-prepared coffee with that purchased in cafés.

At the same time, total world production has increased. Since 1990 there has been a 15% rise in coffee produc-

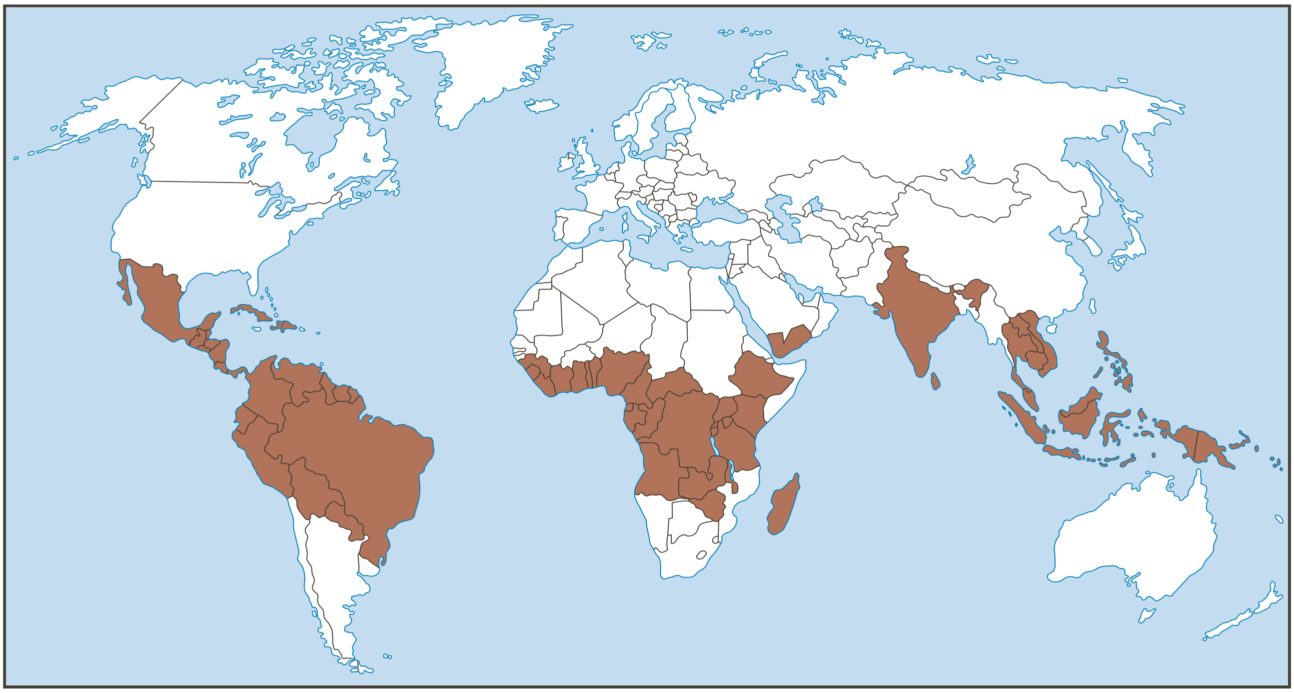

Figure 1: **The world's major coffee-producing regions and countries, 2004.**

tion. One of the major causes of this growth has been the rapid emergence of the Vietnamese coffee industry. Supported by development assistance and advice from international agencies such as the World Bank, the Vietnamese government energetically embraced a major push into global coffee markets. As one of the poorest countries in Asia, Vietnam saw the expansion of the coffee sector as a means to gain valuable foreign exchange. Furthermore, it provided an opportunity to promote economic development in relatively remote hill-tribe areas.

However, coffee production has increased in other countries as well. The reasons for this relate to a complex interplay of technical, economic and political factors. During the past decade the productivity of coffee trees increased because of improved agricultural practices. Moreover, in many countries, increased land has been dedicated to coffee production. The reasons for this vary from country to country, but coffee production expanded in many areas as agrarian land laws were liberalised. In some countries this facilitated estate plantations; domestic food markets were deregulated, which removed price floors for some food staples. This encouraged a general shift to export production, for example forest areas being brought into agricultural use through privatisation and/or non-regulation. These events have often been aided and abetted by international agencies promoting export-oriented agricultural development.

At a broader scale, these outcomes were preconditioned by global-scale transformations in production and trade regulation. From the early years after the Second World War until 1989, international coffee trade was orchestrated by the International Coffee Agreement (ICA), which allocated export quotas to individual countries. These arrangements established a system of managed trade whereby producer countries agreed to limit their exports of coffee in order to keep coffee prices high. As the major coffee importer country, the United States agreed to support these arrangements because they provided a tangible economic benefit to rural communities in developing countries, particularly in Latin America. This was felt to support America's Cold War political aspirations in the region. Rural discontent in Cuba led to the 1959 Revolution led by Fidel Castro, and this precedent was very much in the minds of Washington policy-makers.

With historical hindsight, it is no surprise therefore that the ICA fell apart in 1989, just as the Cold War came to an end. The United States Administration of George Bush (Senior) decided to end its support of the ICA's system of managed trade, and coffee became a more freely traded commodity.[3] The immediate effects of this decision were to cause a sustained fall in world coffee prices for the first half of the 1990s. Severe frosts in Brazil during the mid 1990s then saw a temporary rise in coffee prices, before the basic trend continued up to the present day. Between 1980 and 2000, world coffee prices fell by 64.5% (Oxfam 2002, p. 152), and by the end of 2003 they were at levels below those received 30 years previously. Moreover, the end of managed trade has meant that coffee prices have become increasingly volatile, so producers have been faced not only with falling prices, but more unpredictable ones as well.

But this story is not simply one of supply and demand. The economic character of the supply chains that connect producers with affluent markets has also changed, and with this, the distribution of economic returns among contributors to the 'coffee value chain' has been transformed. At present, coffee growers receive less than 7% of the retail price of coffee in developed world markets: the remaining 93% is allocated to importers, roasters, packing firms and retailers (Charveriat, 2001, p. 1). In part this reflects a structural imbalance of commercial power in the global coffee system, whereby six international trading companies control over half of world coffee exports. These traders sell to roasters, and just two roasting companies (Nestlé and Philip Morris) account for over half of world sales of roasted and instant coffee (Ponte, 2002). In these contexts, developing coffee growers are in a very weak bargaining position, as summarised by the aid agency Oxfam:

> *In soluble coffee [Nestlé] has a global market share of 57 per cent, three times the level of its nearest rival, and operating margins estimated at 26 per cent. In the words of one recent commercial bank review of the coffee sector: 'Nothing else in food or beverages is remotely as good' [as this profit rate]* (2002, p. 163).

The effects of the coffee crisis

When small agricultural producers are reliant on the sale of their crops for a large proportion of their incomes, falling prices have drastic repercussions for hunger and social vulnerability. In recent years, aid agencies have attempted to bring these human dimensions of the coffee crisis to the attention of policy-makers. One example out of many that could be cited concerns a family in the village of Kishimundu in Tanzania. In 1998, villagers were being paid US$2.20/kg for green coffee beans. By 2000, they were being paid only US$0.75/kg. According to one coffee grower:

> *The price of coffee is destroying me. It is destroying this whole community. I cannot even afford to feed and clothe my children. How can I send them to school? Education is very important. It will give them a better life. But now I cannot pay for the school fees and books. Sometimes they are chased out of school because they cannot pay* (cited in Oxfam 2002, p. 156).

These human-scale dimensions of the crisis cascade into regional and national economies. For a significant number of tropical countries, especially in Africa, coffee is the major source of export-earnings. The collapse of coffee-prices, then, has undercut the viability of whole national economies. Many of these countries are also heavily in debt to international banks, and have had to renegotiate or even suspend the repayment of loans. In turn, the ensuing 'debt crisis' of developing countries is a major source of financial instability in the world economy, and a festering source of political tensions.

Conclusion

The current conditions of the world coffee industry represent a crisis of enormous human cost. The low prices being received by coffee growers not only imperil the livelihoods of people and communities, but also add significantly to widening global inequality and its related political and financial implications.

In a more abstract sense, the crisis also highlights the shortcomings of export-oriented development models in agriculture. It brings into focus what can be called the fallacy of composition; the failure to accept that what is true for components of a system may not be true for the system. When one country increases its coffee exports, it benefits. But if international development agencies such as the World Bank and International Monetary Fund give the same or similar advice to all countries, then the effects are to produce an over-supply of commodities and to cause prices to fall. The lives of smallholder peasant farmers are made vulnerable by dependence on the fickle conditions of deregulated commodity markets, which in any case are structured in ways that allocate power to a small number of trans-national corporations. Redressing the problems of global inequality and development requires an approach to agricultural markets that is more sophisticated than mere reliance on 'market solutions' as a route to prosperity. The activities that follow are intended to go some way towards introducing students to the international coffee crisis. ■

Student activities

Depending on the age and abilities of the students you are teaching and the topics being studied, you can either offer them a selection of the following activities to carry out independently or in groups, or guide students through activities as appropriate.

Activity 1: Compiling a glossary

Compile a glossary to show your understanding of the following terms and give examples where appropriate:

- Agrarian
- Commodity markets
- Developing country
- Export industry
- Export-oriented development
- Food security
- Foreign exchange
- Global inequality
- Gross domestic product
- Import-replacement development model
- Manufacturing sector
- National economy
- New agriculture countries
- Newly industrialising countries
- Regional economy
- Trans-national franchised chains

Activity 2: Understanding the text

Provide students with copies of the text of this article including the figures (a Word version of the article can be downloaded from the supplementary section of *Teaching Geography* online).

1. Name the countries that have benefited from export-oriented development.
2. Name two countries that have moved from an import-replacement development model to an export-oriented one. Explain what this means, using examples.
3. Describe how agriculture impacts on export-oriented development.
4. Outline the three disadvantages of export-oriented development based on agriculture. Do you think any of these disadvantages can be overcome by developing countries? Justify your answer.
5. What is the impact on the growing countries when world prices for coffee plummet? Give examples of the impact on growers.
6. Describe what has happened to coffee production since 1990.
7. Outline how technological, economic and political factors have resulted in an increase in coffee production.
8. Describe how regulation has affected coffee trade over time.
9. Explain how US political decisions have had an impact on the world trade in coffee.
10. Describe the structural imbalance in the global coffee system.
11. What generally happens to the price of commodities when only a few companies control exports?

Activity 3: Applying skills

1. Describe the conditions required to grow coffee beans.
2. Study Figure 1. Describe the distribution of coffee-growing areas. Read again about the physical elements required to grow coffee. Choose three different countries and use an atlas to describe where coffee might be grown in each country.
3. Continue looking at an atlas. Do you think there are any other countries that currently do not grow coffee but have the physical conditions to do so? Justify your answer.
4. Draw a generalised timeline to show the trend in coffee prices over time.
5. Draw a cup of coffee and divide it to show how the retail price of coffee is distributed. Who are the winners and the losers?
6. Study Table 1. Draw a graph to represent world coffee exports. Describe the information and pattern shown by your graph.
7. Study Figure 2:
   a. Describe the change in green bean coffee production from 1990–2003 for each country.
   b. Do the same peaks and troughs for Brazil and Columbia occur at the same time?
   c. Why is the pattern for Vietnamese coffee production different from that of Brazil and Columbia?

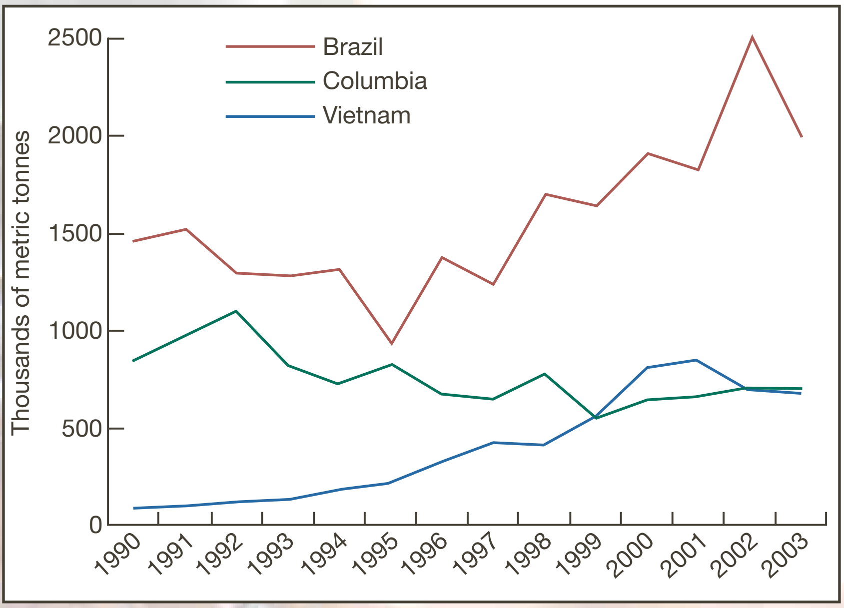

Figure 2: **Green bean equivalent coffee production (thousands of metric tonnes) for Brazil, Colombia and Vietnam, 1990-2003.**

Country	Tonnes exported	Percentage of world total
Brazil	1,506,289	29.71
Vietnam	699,632	13.80
Colombia	623,218	12.29
Indonesia	276,000	5.44
Guatemala	225,700	4.45
India	224,708	4.43
Mexico	158,797	3.13
Uganda	150,987	2.98
Honduras	145,939	2.88
Cote d'Ivoire	144,141	2.84
World total	5,069,174	100.00

Table 1: **World coffee exports, February 2003 to January 2004.** *Source*: **ICO website.**

Activity 4: Fairly traded coffee

Visit the websites listed below to research and read about fair trade for coffee growers. (The websites often include ideas for students.)

- Oxfam – www.oxfam.org.uk
- Global Exchange – www.globalexchange.org/campaigns/fairtrade/coffee/
- Planet Ark – www.planetark.com/dailynewsstory.cfm/newsid/17184/story.htm

Form groups of five and use the information on these and other websites to produce an awareness campaign about global coffee growing and the 'fair' alternatives.

If possible, invite guest speakers to your school to talk about coffee and other fairly traded products.

Good luck and fair trading!

Notes

1. Customarily, these are called the 'NICs' even though Hong Kong is not a country in its own right and Taiwan has a contested political status. More correctly, they should be called 'newly industrialising economies' or NIEs.
2. Mexico provides a good example of this. Since implementing export-oriented agricultural development via the North America Free Trade Agreement (NAFTA), Mexico has become reliant increasingly on corn purchased from heavily subsidised US farmers. The rapidly increasing volumes of corn imports and the liberalisation requirements for local food systems accompanying the NAFTA have resulted in the displacement of 1.75 million smallholder maize growers, many of which have migrated to urban areas (see Carlsen, 2003).
3. To some extent, the 1989 decision to abandon the ICA system has come back to haunt the US. Lower coffee prices gave encouragement to many Latin American peasant farmers to cultivate coca, in order to make up lost income. Thus, the rapid upsurge of illegal drug imports in the US during the early 1990s was connected to the post-Cold War politics of coffee. Then, in the late 1990s, the US Government provided subsidies to farmers in Bolivia and Columbia to switch from coca to coffee production, which further added to world production, over-supply, and lower prices. In another example of how the decision to abandon the ICA has come back to impact on the US, the New York Times reported that 'In Central America, the World Bank estimates that 600,000 coffee workers had recently lost full-time or temporary jobs, prompting a flight of Guatemalans and Hondurans to Mexico and a separate exodus of Mexican farmers into the US' (Smith, 2003).

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References and further reading

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