World Coffee Conference

Global Trends

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- Professor Stiglitz has made an excellent presentation on Globalization and Developing Countries. While generally supportive of Globalization, he makes us aware that, when it is not managed well, it may actually bring about adverse effects on overall growth and points out a number of channels through which such adverse effects came up: job creation, increased risk originated in capital market liberalization, adverse impact of capital flows on exchange rate appreciation, facilitation of capital flight, loss of independence of monetary policy, potential loss of national financial institutions, and deteriorating domestic political equilibrium through the undermining of social aspects.

- On the other hand, Robert Thompson has discussed strategies for developing countries dependent on primary commodities, some of which are widely applicable to the coffee industry. Of particular relevance are his suggestions on the use of market based risk management tools to deal with the volatility of coffee prices. Other significant issues regard the need to strengthen efforts to reduce costs, and his view that the government policies should concentrate their attention on how to stimulate off-farm employment. Other issues such as the need to improve marketing systems and the need to improve the quality of the product are also very relevant. Even issues of high tariffs on agricultural imports by OECD countries also have to be taken into account.

- The two papers together provide us with an economic framework to explain some of the reasons behind the decline of the coffee industry in developing countries, and to suggest policies to prevent further deterioration and to strengthen the industry.

- Let us comment first on Professor Stiglitz' presentation and discuss whether and to what extent has globalization both in trade and capital flows been responsible for the decline of coffee in economic activity, and whether it has been for the better (i.e. thus leading to higher economic growth and social welfare). Trade opening in developing countries has had mostly a positive effect on economic growth and on agricultural sectors of developing countries, given the high cost imposed by import substitution, especially in Latin America. On the other hand, increasing market access to developed countries has significantly changed the patterns of growth of developing countries, though the poorer developing countries and especially African coffee producers have not benefited. Coffee, however, has historically been a globalized commodity. In the particular case of coffee, globalization has internationalized brand names and improved the choices, but a direct cost has been the high concentration of the roasting industry. We share the Stiglitz concern on the issues of tax policies in developed countries on commodities which have had an adverse impact by reducing export prices.

- On the other hand, as shown by Stiglitz, the net benefits of capital market liberalization have been less clear. Middle-income coffee producing nations, such as Brazil and Colombia, have benefited from increasing access to the world private capital markets, but, on the other hand, suffered significant volatility in market access, given contagion effects. Also, due to resulting exchange rate volatility, both countries in the early 1990's adopted controls on short-term capital inflows of the Chilean type. Coffee producers, due to the fall in relative importance of coffee and capital account liberalization, lost their natural hedge: the exchange rate appreciated only when coffee prices were high. African and other less developed countries, on the other hand, have not had a chance to benefit from capital liberalization due to lack of access to markets. However, they have benefited from special policies of official debt forgiveness and financial support from the World Bank and the IMF, through the Highly Indebted Poor Countries (HIPC) Initiative.

- A final point regarding globalization regards the importance to coffee producing nations of the prospective risks and policies for the world economy and, in particular, the outcome for industrialized countries. Even though income-elasticities of demand for coffee are extremely low, the global demand for coffee fares well when the world economy grows. If the coffee price outlook has been dim under the strong U.S.-led world economy in the past few years, prospects can only worsen in the present and projected situation. GDP growth in the United States has slowed significantly, though the first quarter shows a modest, positive and higher than expected growth. A hard landing in the United States would have a disastrous impact on coffee producing nations as past world recessions have shown. Even though coffee prices are quoted mostly in U.S. dollars, a disorderly unwinding of exchange rate misalignments of major currencies could also be highly costly to coffee producers and traders.

- Coming back to Robert Thompson's suggested strategies for commodity exporting nations, the first point that I would highlight today is his suggestion in favor of a more intensive use of risk management mechanisms (futures and options) as a means to reduce coffee price volatility. I believe it is the most appropriate tool, to the extent that price stabilization through quota mechanisms and price bands, as experienced in the past International Coffee Agreement, does not appear presently a politically viable alternative. Notwithstanding, I think that there is still a positive role to be played by national stabilization funds, such as that of the Colombian National Coffee Fund.

- In terms of state intervention in agriculture, I consider that, besides domestic coffee price stabilization, investment in agricultural research and extension (new high yielding resistant varieties) has a high social rate of return and is a means to achieve a reduction in output costs. Beyond all, experience shows that rather than direct intervention the most important role for the state is the adoption of a high-quality, credible macroeconomic policy. World experience shows that excessive controls and management by the state has been costly for the coffee industry, but that sector policies supported and directed by coffee producers, as has been the case in countries such as Colombia, have been positive.

- My final point is that the world coffee producers and the industrialized countries' coffee trade and roasting industries have a common interest: the promotion of coffee consumption in the world. They and their governments should work together to that end. The World Coffee Conference is a right step in that direction. We support Mr. Stiglitz' view that there is a need to strengthen the system of global governance.