

COFFEE PRODUCTION AND THE LIMITS TO DEVELOPMENT IN THE DEVELOPING COUNTRIES

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ABSTRACT

Coffee production has occupied a significant position in the development economics of many developing countries. Most countries in Africa considerably depend on the production and exportation of primary agricultural commodities. Debates have emerged to examine the place of commodities in the whole development matrix. Coffee production in Zimbabwe is, therefore, embedded within the global debates on the role of commodities in stimulating development in the less developed countries (LDCs). For Zimbabwe, like many in the Global South, agriculture is seen as the basis on which to launch development initiatives. However, this thinking has been subject to critical questioning for several decades. This paper argues that agricultural commodity production can hardly contribute to sustainable economic development owing to the structural constraints characterising the whole economic setup. It suggests that for coffee production to effectively contribute to economic development strong linkages have to be forged through internal value addition processes.

Keywords: Coffee, Sustainable Development, Developing Countries, Agricultural Commodities, International Trade

INTRODUCTION: COFFEE AND THE INTERNATIONAL COFFEE ECONOMY

The quest for sustainable economic development in the developing countries, particularly Africa, has generated various contours of debates across many scholarly groupings. Of particular interest among these debates is the place of agricultural commodity production and export in stimulating enduring strings of sustainability. One school of thought argues that sustainable economic development in Africa can be realised if Africa perfects the art of agricultural commodity production and export. This argument is largely hinged on the concept of comparative advantage, where Africa is argued to have a better comparative advantage in the production of agricultural commodities than the manufacturing industry. This school further contend that Africa can then use revenues from agricultural commodity trade to roll out various economic development projects in their respective countries. However, this paper challenges this position arguing that specialisation in commodity production is inimical to sustainable economic development in Africa. Using coffee production in Zimbabwe as a case study, this study explores how the predatory nature of global capitalism constrains the capacity of agricultural commodity production in sponsoring enduring linkages for sustainable economic development in Africa.

Coffee is a non-alcoholic stimulant which has earned itself a great reputation in international trade for more than three centuries, (Wilson, 1999). The stimulating properties of coffee alongside those of tea and cocoa arise from three main compounds – caffeine, theobromine and theophylline- all which are derivatives of purine. Caffeine is regarded as the least desirable of all the three compounds, which development has resulted in decaffeination of coffee on a large scale. Scientists have also been making efforts to develop and grow non-caffeine coffee varieties. Nonetheless, caffeine produced from the decaffeination processes is a valuable property for medicinal drug manufacturing and various stimulant drinks like energy drinks and various ‘cola’ formulations. As a result of these stimulating qualities, coffee became the most traded agricultural commodity only second to oil in international trade, (ICO, 2017). Coffee drinking has also been significant in shaping the social scene of importing countries leading to the emergence of coffee bars and shops.

Coffee is the second largest traded commodity in the world after oil and the most valuable primary agricultural product in international trade. More than 70 countries globally are producing coffee and most of the economies of these countries depend greatly on coffee revenue. Growing, processing, cultivation, transportation and marketing of coffee affect many lives. The global coffee structure is such that producing countries are in the underdeveloped global South and consuming countries are in the developed global North. The USA is one of the largest consumers which initiated and spread “coffee culture.” Besides the USA, EU countries like Italy, the UK, Scandinavian countries among many others enjoyed coffee way before the USA and have had strong coffee traditions and adding new types and ways of enjoying the brew. It is practically impossible to find a single town or city without a coffee shop and it is now a global phenomenon and a kind of tradition to get a morning coffee that would make one’s day better by giving them more energy and high spirit.

Global coffee production and trade has played a significant role in the economies of several African, Latin American, Caribbean and Pacific countries. The livelihoods of more than 25 million people in these countries depend on coffee production. More than 7 million tons of green coffee equivalent are consumed annually, 74% in the North and 26% in the producing countries, (FAS, 2006, p. 2). Many of these countries are dependent on coffee which accounts for over 75% of their total export earnings. Among consumers, coffee is a universally popular drink with over US\$70 billion in retail per year. Since the 19th century when coffee became an important commodity in international trade, the commodity has been an important earner of strong currencies for producing countries, contributing in various degrees to the national incomes and presenting a basis for economic development, (Taringana, 2014, p. 15).

In Zimbabwe, coffee has been grown since the 1890s, initially for domestic consumption and in the 1960s, a kind of coffee revolution occurred, where Southern Rhodesia joined the growing group of coffee-producing countries in Africa. From the 1960s, coffee production increased considerably, and colonial Zimbabwe managed to maintain the production of high-quality Arabica coffee which is generally scarce on the international market.¹ The expansion of coffee production continued in the post-1980 period, and coffee developed to be the fifth most important export agricultural commodity in the country, (ZCM, 2006). At least up to the year 2000, when coffee production was disrupted by the fast track land reform programme, Zimbabwe earned a reputation for producing high-quality coffee with a balanced acidity, body and consistent superiority. About 98% of coffee grown in the country is exported and the remainder is consumed locally, which makes it important in contributing to the much needed foreign exchange earnings, (ZCM, 2006). Although Zimbabwe is a small world producer, the country's coffee gained a high reputation on the international markets and its top coffees are sold at premiums. The extent and nature of the export orientation of the coffee sector in Zimbabwe make it an appropriate case study to explore commodity production and sustainable development debates on a global scale. Nonetheless, the industry has encountered an array of problems that are of a significant concern. The international coffee market is wobbly, world financial crisis making it even harder, prices are highly volatile and farmers can hardly survive on the income from coffee growing. All these concerns make studies on commodities production and export critical. They are a tonic to chatting different ways, external and internal, which can be applied with the goal to improve the industry and raise the standards of life of the roots of the industry - coffee growers.

COMMODITIES, INTERNATIONAL TRADE AND ECONOMIC DEVELOPMENT

Coffee production and the general contribution of commodities production and exports to economic growth and development should be understood within the context of international trade. The philosophy behind international trade suggests that countries trade with each other because trade is mutually beneficial. From this conceptualisation, the basic motivation of trade are benefits that accrue to nations and, at least in theory, this forms the nucleus that propels economic development. The idea of gains from trade was at the core of the classical economic theory of international trade propounded by Adam Smith and further developed by David Ricardo. For Smith, the benefits from trade arise from the advantages of division of labour and specialisation at the international level, (Myint, 1977). Ricardo substantiates this by noting that the benefits from trade consist of the saving of costs resulting from obtaining the imported goods through trade which would otherwise be more expensive to produce domestically. This is generally known as the Ricardian comparative advantage thesis. The theory of comparative advantage argues that trade can be beneficial to all countries if they specialise in the production and export of goods in which they have a comparative advantage in. It generally assumes a scenario where there is reciprocal demand – *equilibrium of demand* - of each country, for another country's goods. Although the concept of terms of trade had not been developed during the times of Ricardo, this analysis assumes that there would be favourable terms of trade for both trading partners and that alone is the motive behind international trade, of which ripple effects generate economic growth and development.

In the global economic system, the theory of comparative advantage and international division of labour has been underscored over time. It was often argued that Africa, for example, has a comparative advantage in the production and exportation of agricultural products such as coffee, cocoa and cotton, among other primary commodities, (Collier, 2002).

¹ There are many varieties of coffee in the world. However, the most commercially tradable varieties are the Arabica and the Robusta varieties. Arabica is of higher quality than Robusta. It is usually undersupplied on the international coffee market and fetches higher prices.

African countries were expected to produce primary commodities at lower opportunity costs due to “cheap land and labour resource endowments in the region,” (Roy, 1990, p. 14). This saw African countries developing policies that emphasise the production of commodities that their climates and topographies were capable of supporting. This includes, for example, cocoa production in Ghana and coffee in Kenya, among other countries. While Zimbabwe’s agriculture was fairly diversified, the general agricultural policy emphasis was to promote the production of specific crops in particular areas suitable for such crops, according to the country’s agro-ecological zones. This has seen Zimbabwe perfecting the art of producing commodities such as coffee, tobacco, tea and sugar among others in different parts of the country. Agricultural commodities production and export in Zimbabwe is, therefore, critical in the development economics of the country, particularly in the milieu of international trade.

However, although commodities production occupies an important position in the economies of developing countries, commodity-dependent developing countries have generally been associated with poor economic performance. This reality has tended to defy the basic logic of classical economic theory on commodities production and export, and economic development, a trend that has come to be considered as the commodities problem, and specifically for coffee, the coffee paradox. Internal and external factors accounting for the commodity problems are complex and have generated debates over the years. Despite the reality of commodity problems, the agricultural sector continues to play a pivotal role in terms of forex earnings, fiscal revenue, income generation and livelihoods sustenance in many LDCs, (UNCTAD, 2011). This development has instigated economists and development experts to devise strategies for solving the commodities problem and enable commodity producers to make the best out of commodities exports.

The global context within which production and consumption of commodities take place, and the local policies of commodity-dependent countries are central to the process of defining any strategy designed to ensure sustainable economic development in the LDCs. Generally, the LDCs are among the countries that benefit least from international trade. Indeed, the higher negative price volatility and long-term deterioration of terms of trade relative to manufactured goods put commodity exports at a disadvantage. For example, the high price levels attained by many commodities between 2003 and 2011 have increased the revenues of many commodity exports but have not solved any development challenges affecting the LDCs and deeper policy problems faced by these countries. Reasons for this are many, ranging from declining terms of trade for agriculture relative to manufacturing and misuse of funds by exporting countries.

Commodity markets are characterised by volatile price cycles which have detrimental macroeconomic consequences and pose great policy challenges for the LDCs. Historically, the price cycles have consisted of short-lived booms followed by longer periods of bursts. Since the mid-20th century, there were two major commodity booms between 1973 and 1980, and the most recent one between 2003/2008 and 2009/2011. Unstable high prices had negative repercussions for developing countries. Heavily fluctuating prices posed a huge threat to macroeconomic management in commodity-exporting countries by distorting financial planning and harming investment through rising uncertainty. Yet still, during those rare commodity booms, increased commodity revenue was normally accompanied by hikes in the prices of manufactured and other imported goods. This means that real incomes for farmers face perennial erosion. This reality casts sincere doubts to the role of commodities as the basis for any guaranteed sustainable economic development in the developing countries.

Nature of the commodity problem

While the various concepts of classical and neo-classical economic theory tend to view international trade in primary agricultural commodities as beneficial to both trading parties, a growing body of literature argues to the contrary. From the

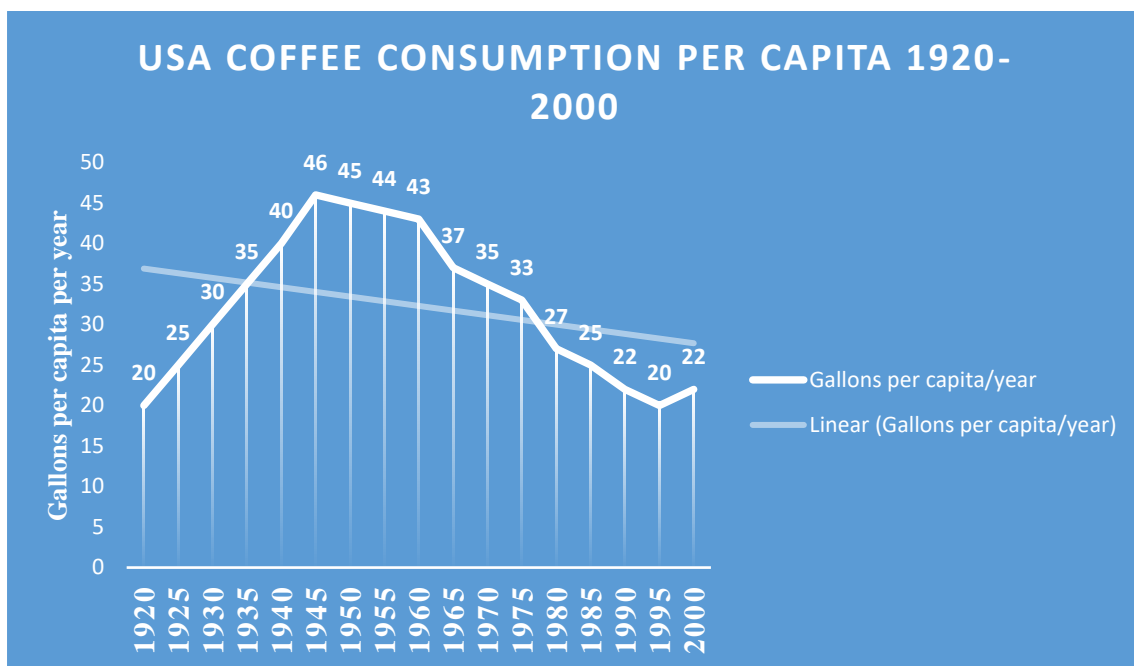
1950s, economists increasingly noted that trade in primary agricultural commodities generally short-changes the producing countries. The most notable theory to explain this trend is the Prebisch-Singer hypothesis. The theory is part of several works, particularly the Dependency School, that note the negative impact of commodity exports to the exporting countries, (Prebisch, 1950, Singer, 1949.) Prebisch and Singer elaborated three arguments against specialisation in primary commodity exports. First, primary commodity exports are considered as external to the LDCs. They turn the developing countries' economies into enclaves and outposts of the more developed countries, (Singer, 1949). Production of primary commodities for export was thus viewed as serving the interests of foreign economies and exporters are not positioned to benefit much from the trade relations.

The second argument was that reliance on commodity exports deprives the developing countries of raw materials which would otherwise be effectively used in propping the development of manufacturing industries. Industrialisation was believed not only to create immediate benefits but also to have a positive impact on the general levels of education, expertise, standards of living, ingenuity, store of technology among other things. Trade in primary commodities was, therefore, considered as inhibitive and inimical to development as it deprived the economies of the LDCs with the multiplier-effects that could otherwise be generated in the whole economy through the development of the manufacturing industry.

The third argument which forms the core of the Prebisch-Singer hypothesis is that commodities trade cannot be expected to generate sustainable economic development in the LDCs because the terms of trade for primary commodities relative to manufactured goods were deteriorating in the long-term. This is explained by the tendency for economic development to increase demand for manufactured goods, thus driving the prices for manufactured products higher relative to agricultural commodities, (FAO, 2003). This trend led to the transfer of incomes from the developing world to the developed world. The exporting countries were, therefore, unable to benefit from the productivity gains contrary to what happened in countries that export manufactured goods, (Daviron and Ponte, 2005).

This trend was compounded by demand inelasticity for raw agricultural commodities and demand elasticity for manufactured goods. The following graph depicts a declining trend in coffee consumption in the USA from 1920 to 2000.

Graph 1. Declining Coffee Consumption in the USA 1920-2000



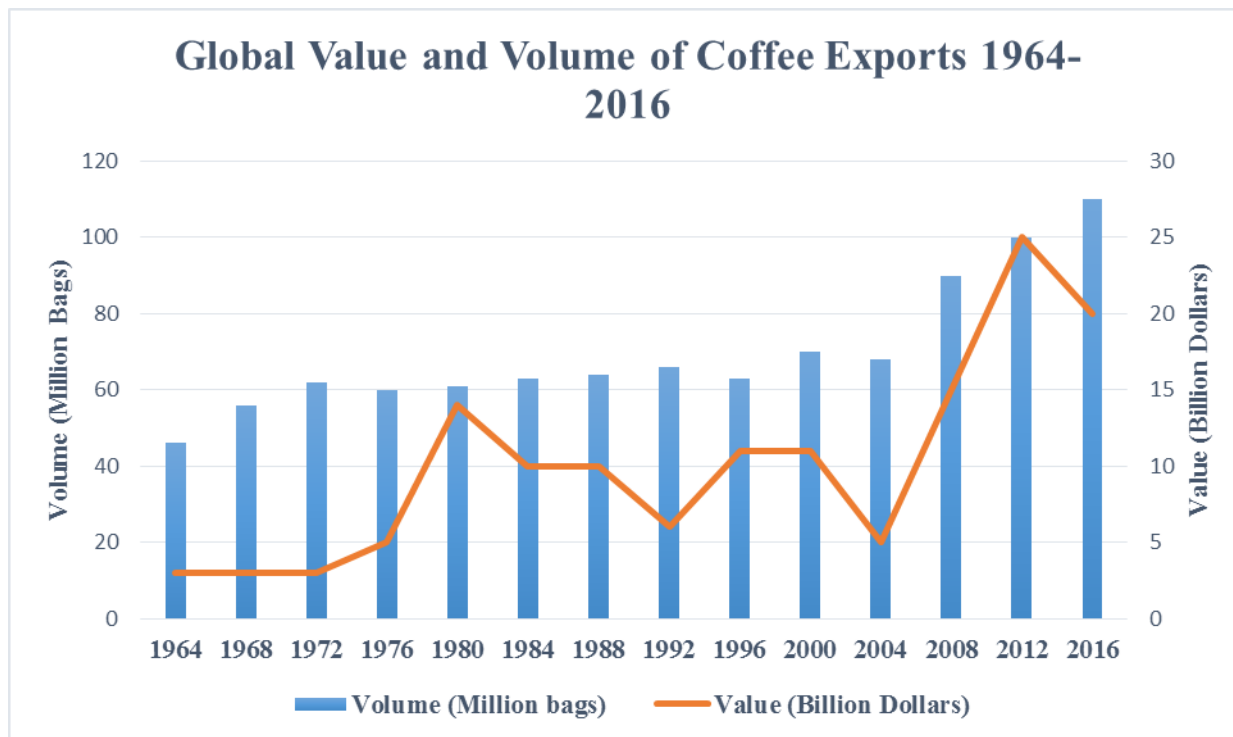
Source:

Statistics from the US Department of Agriculture.

This reality generally defeats Ricardo-cum-Mill's concept of equilibrium of demand between trading parties. In short, the demand for primary commodities in the consuming countries is much lower than demand for manufactured goods in the LDCs— *disequilibrium of demand*. Thus, the incomes generated coffee exports are lower compared those accrued to manufactured products.

A natural economic reaction to cover the gap created by the declining incomes among the LDCs was to increase the quantities of commodities produced and exported. This resulted in the flooding of the international market with commodities, with the detrimental effects of drastic price falls. Consequently, earnings from exports failed to increase and rising import prices further eroded producers' purchasing power. In the long run, developing economies exported more raw commodities to purchase the same value or less, of manufactured goods than the previous years. The long-term decline of real commodity prices can be explained by the economic law of demand and supply. Generally, global supplies of primary agricultural commodities are growing more rapidly than demand, a trend fuelled by increasing production and the emergence of new producers. It is, therefore, the consumers in the developed countries who were the major beneficiaries of productivity gains through offering low prices. The following graph shows a general increase in coffee production but incomes for exporters are less predictable and mostly on the decline.

Graph 2. Global Value and Volume of Coffee Exports 1964-2016



Source: Statistics from the International Coffee Organisation (ICO), www.ico.org

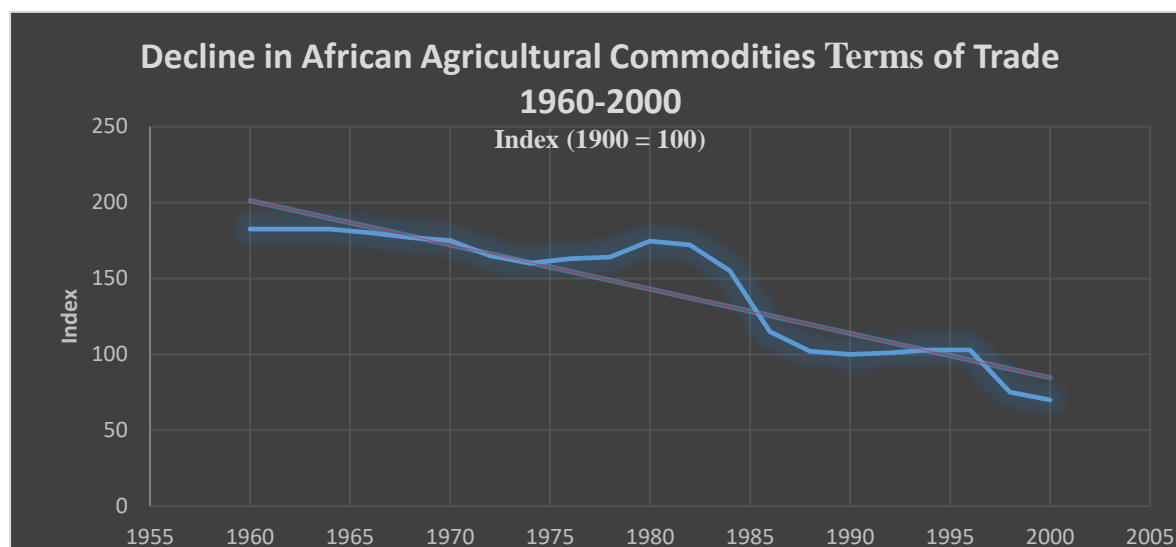
This precarious scenario in the process was worsened by the LDCs’ increasing demand for manufactured goods from the developed countries. The cost of manufactured capital inputs in the production process is usually higher than the realisations obtained from trading primary commodities due to suppressed demand of the primary commodities in the consuming countries. In this case, for developing countries that depend heavily on commodity exports for forex, the cash price is less revealing than the batter-term-of-trade – the ratio of prices of exported goods to the prices of imports.² As this ratio reduces, the quantities of imports that can be acquired from a certain quantity of exports also contracts, (FAO, 2003). This trend was worsened by the rise in synthetic substitutes and artificial flavours. Any scheme designed to increase the prices of commodities has a tendency to increase demand for synthetics and a long-term shift away from the developing country’s products. Coffee, for example, is facing big competition from chicory, (Page and Hewitt, 2001). As a result, many producers grapple with falling real incomes, in the long run, making commodity production increasingly unprofitable. This is commonly caused by a surge in global production in the long run. In short, commodity producers face the dual problem of lower returns (deteriorating terms of trade) and higher risks (unpredictable and uncontrollable shocks from weather or new discoveries).

All the problems noted above constitute the fundamental explanation of the declining terms of trade for primary commodities, and within it, trade in primary commodities cannot generate sustainable economic development for the LDCs

² Commodity price increases may not reveal any improvement in commodity markets due to other variables like inflation and exchange rates. In this case, batter-terms of trade are used to determine the behaviour of commodity markets.

economies. Although commodity prices increased considerably during the commodities boom of the 1970s, since the early 1980s, this trend reversed and many countries suffered severe losses from the declining terms of trade both between agricultural exports and imports and between agricultural exports and manufactured goods which they imported. From the mid-1980s through to 2015, terms of trade deteriorated significantly and falling by half from a peak in 1986 to a low in 2003, (Page and Hewitt, 2004). This negatively affected the balance of payments and worsened the debt burden of many LDCs. Between 1961 and 2000, the average prices of agricultural commodities exported by the LDCs fell by almost 70% relative to manufactured goods purchased from developed countries. The graph below depicts a declining trend in agricultural commodities terms of trade from 1960 to 2000, (Page and Hewitt, 2003).

Graph 3: Terms of trade for African Agricultural Commodities, 1960-2000



Source: Statistics from UNCTAD.

Although it is challenging to measure and confirm a long-term global trend using statistical data, from the graph above, the terms of trade for primary agricultural exports from developing countries have and continue to weaken significantly. Even during the 1990s, when the terms of trade for developed and other developing countries were relatively sound, they plunged by 25 percent for the LDCs.

In a strictly economic sense, for the exporting countries, increased production caused declining primary commodity prices, while in the consuming countries productivity gains led to higher profits for capitalists and better wages for labour. This development constitutes the basis of the commodity problem and particularly, the coffee paradox. This situation is mainly characterised by rising retail commodity (coffee) prices and processors and roasters capture increasing profit margins, while at the same time farmers receive prices below the cost of production, (Dviron and Ponte, 2005, p. xvi). As (Daviron and Ponte, 2005, p. xvi), observe in coffee production:

The global chain for coffee is currently characterised by a coffee paradox, a coffee boom in the consuming countries and a coffee crisis in producing countries. A paradox within this paradox is that the international coffee market is awash in 'low quality' coffee while there is a dire shortage of high-quality coffee ... and it is the latter that is generating sales growth.

This observation was confirmed by the Food and Agriculture Organisation (FAO) which notes that the long-term trend in real prices for agriculture is falling since the post-Second World War period and by the mid-1990s prices of commodity exports from the LDCs fell to the lowest since the 1930s, (FAO, 2001). Coffee prices, for example, fell by 70% between 1997 and 2001, threatening the lives of about 25 million people who depended on coffee, (FAO, 2001) Many farmers, therefore, continued to find themselves trapped by this dependency and paradox – producing more but earning less than they did in the past. The recurring declining terms of trade for primary commodities compounded by high commodity price volatility opens up questions on whether sustainable economic development can be bankrolled by trade in primary commodities.

Global commodities value chains, market power and income distribution

The commodities problem and the coffee paradox, in particular, can also be explained by the governance structures of the commodities value chains. Part of an explanation given by Daviron and Ponte, for the commodities and specifically coffee paradox, is the failure of coffee producers to control parts of the coffee value chain, particularly the addition of the *immaterial value*. In the differentiated coffee markets, while customers pay for the intrinsic (sensorial) value of coffee, they pay even more premiums for the extrinsic (non-sensorial) product attributes, (Pelupessy, 2008). Both kinds of differentiation are mainly realised by downstream value addition activities near the final consumer which increases the market power of big roasting and retailing companies. Thus, brands and brand loyalty is the major determinant of profits accrued to the processors. Accordingly, it is not only the material quality that roasters and retailers get a profit from but mainly *symbolic* and *in-person-service* quality attributes, and as long as farmers and their organisations do not control at least parts of this immaterial production, they will forever be confined to the commodity problem and declining terms of trade for their produce, (Daviron and Ponte, 2005). As a solution to this, some countries attempted to export agricultural commodities at advanced stages of processing. However, this has been met with prohibitive tariff escalation in the developed world. For example, tariffs on processed coffee and cocoa products exported are far higher than tariffs in raw beans, (FAO, 2003). Tariffs and trade-distorting policies in developed countries to a large extent reduced the market share of and revenues of exports from developing countries. These distortions also limit the exporters' access to the most rewarding stages of value addition in the entire commodity value chain.

This means, the design of commodity market power was and still is concentrated in the hands of few corporation. For coffee, only three corporations control virtually half of coffee roasting internationally, (FAO, 2003, p. 7). Thus, the governance structure that controls the chain and that significantly determines how gains are allocated along the value chain is skewed in favour of the corporations. Few big multinational coffee companies are the governing force in the global coffee chains and execute their control by operating in imperfect markets and coordinating production and trade conditions, (Pelupessy, 2008). In this case, recommendations for countries to move up to more lucrative stages in the value chain became more difficult for developing countries as commodity value chains have become more fragmented and internationalised. This is because of the greater control exercised by processors, traders, and retailers which has effectively curtailed the policy space for commodity-dependent developing countries and limited their ability to influence global value chains. It is increasingly difficult for developing countries, to generate adequate revenue from agricultural exports. Coffee production and consumption is part of specific global commodity chains which involve border-crossing value addition processes, creating a network of producers, traders, and service providers. The externalisation of value chains has restricted the bargaining power of fragmented agricultural producers. These producers get little support to meet the often strict

demands of international buyers and are, therefore, unable to obtain their fair share of world market prices, (UNCTAD, 2011).

Control of the value chain was and still is, therefore, executed through market power and coordination between firms in different segments or among external players divorced from the producers. The big multinational roasters control the transmission of coffee value and information streams along the chain at strategic and most lucrative parts. This control is obtained by a hybrid of market and extra-market coordination tools, (Pelupessy, 2008). High and very divergent final consumer prices are one of the outcomes of the dynamics of this structure. Growers' incomes at the other extreme of the chain are much lower making the cultivators' segment, the weakest link in the coffee chain. Yet, if this segment collapses, the supply of the required categories of coffee could be put at risk and affects the sustainability of the entire coffee chain. In this case, any sustainable solutions for the imbalances between raw material exportation and the final consumption cannot be reached by interventions in individual segments of the coffee chain. Interventions should aim at enhancing the efficiency of the entire coffee chain rather than a point-efficiency in international markets. Therefore, the current structure of global commodity value chains is not sustainable.

In short, there are three major explanations given to explain the commodities problem, mainly characterised by declining terms of trade for primary commodities. These cover supply and demand side, value chain and labour factors. For Singer, the unequal distribution of productivity gains has to be interpreted in relation to demand elasticity, which is lower for primary commodities than for manufactured goods. Daviron and Ponte argue that it is the inability of producers to control parts of the global value chain and according to Prebisch, the commodity problem must be understood within the context of low collective action capacity of workers in the developing countries, compared to those in the North, (Prebisch, 1950). Despite the different angles by these scholars to try and explain the commodity problem in global trade and development economics, the point of convergence is the agreement that productivity gains are not equitably distributed and the terms of trade for primary commodities are declining.

Approaches to the commodity problem

The problems of managing commodity prices and the need for a fair distribution of commodity income across commodity chains have been recognised for more than a century at a national level and since the 1920s as an international problem. The concern, however, intensified in the post Second World War period. Having recognised the existence of the commodity problem, an array of strategies was recommended as *longue duree`* approaches for developing countries to escape from the exploitative international commodities trade relations. Among these was the need to reduce dependence on commodities and encourage the development of the manufacturing industry, the introduction of supply management strategies, market-based price risk management and compensatory finance schemes among other solutions, (Page and Hewitt, 2001). However, most strategies did not yield the desired results and commodity-exporting countries continue to face the recurring problem of commodities problem. The few solutions that proved to work were later abandoned either for ideological reasons or as a result of the concentration of market power by multinational companies in consuming countries.

The most touted solution recommended to curbing the commodities problem was to diversify into manufacturing. It was noted that commodity-dependent countries were among the slowest in economic growth and development, (Page and Hewitt, p. 15). It was considered to be judicious to use revenue from the short-term commodity booms and divert the proceeds to support industrialisation which was thought to lead to sustainable economic development in the long run. One of the earliest economic models designed to explain how revenue from commodity production can be used to diversify into

manufacturing and prop economic growth and development is the Arthur Lewis model of structural change. Lewis put forward a development model of a dualistic economy, consisting of rural agricultural and urban manufacturing sectors, (Deaton, 1999). Revenue from the less profitable agricultural sector is gradually transferred to the more rewarding manufacturing sector. The model projects that developing countries could take advantage of the relatively abundant land and labour resource endowments and use the earnings to pursue economic diversification, (Deaton, 1999).

Urban workers in manufacturing industries, tend to produce a higher value of output than their agricultural counterparts. The subsequent higher urban wages would, therefore, force surplus agricultural workers to migrate to cities and engage in manufacturing activity. High urban profits would encourage firms to expand. From this model, commodity-producing countries were expected to benefit from the externalities generated by agricultural commodities production through developing and diversifying their economies into low technology manufacturing sector such as agricultural inputs and primary products processing, (Deaton, 1999). This would lessen and in the long-run eliminate the chronic structural dependence on commodities exports. The strong linkages between primary production with the rest of the economy are important in ensuring sustainable development as they reduce the participation of commodity-producing countries in the exploitative international trade relations.

Within this model and like-tide of economic thinking, import substitution industrialisation (ISI) policies aiming at substituting domestic supply of manufactures for imports became a major component of development strategies in the 1960s and 1970s, (Daviron and Ponte, 2005). The contribution of commodity production to industrialisation was understood in two ways. First, was to provide raw materials for agricultural-based industrialisation. The policy recommendations were generally in favour of countries moving up the value chains and process raw commodities into finished or semi-finished products. Second, was to invest funds from commodities exports in ISI projects. In order to finance the industrialisation programmes, there developed a surge in economic philosophy which encouraged heavy taxation of the agricultural sector in order to generate public funds for investment in the manufacturing sector.

Generally, commodity-exporting countries were expected to take advantage of the commodities booms when they occur, and use the revenues to diversify into manufacturing. While it has been proven that structural dependence on commodity-export earnings is associated with an array of macroeconomic challenges that derail economic growth and development, some still entertained the hope that exporting countries could use the revenues for the purposes of diversification into other economic activities. In this context, commodity booms were thought to provide potential sources of investment funds which if wisely invested could enhance growth and development, (Deaton, 1999). The rise in prices was expected to increase the export earnings for commodity exporters to meet their development goals.

However, in the current global context, the overall contribution of commodity booms to economic development in producing countries has been limited and have not contributed to any significant structural economic change, (UNCTAD, 2001). Rather than fund diversification programmes, commodity booms have generally tended to entrench dependence on commodity export to bankroll national budgets. Commodity booms, therefore, tend to stimulate commodities production in producing countries and worsen their dependence on the same commodities. For example, in colonial Zimbabwe, the post-Second World War coffee boom partly explains the revival of the coffee industry which had been neglected in the 1920s and the 1970s boom stimulated further expansion of the sector, (Taringana, 2014). This is true of subsequent periods of booms where farmers tended to expand coffee production intending to increase their revenue.

Generally, the few commodities booms that have occurred so far do not appear to have promoted economic diversification and structural change, but rather worsened dependence on commodity exports, (UNCTAD, 2003) Initiatives to bankroll industrialisation programmes from the proceeds from commodity exports have been hindered by an assortment of factors beyond the lack of growth in real incomes which explain why commodity booms might often be missed opportunities, (Deaton, 1999). The most conspicuous reason is that large windfalls from commodities tend to destabilise governments budgets. As Collier (2002) notes, coffee booms tend to lure coffee-producing countries into unsustainable increases in expenditure and find themselves trapped into debts as revenue falls in the short run. Another reason concerns regulation or institutional lassitude that makes it difficult for the governments to convert the revenue from commodity booms into productive investment.

Moreover, another challenge with commodity booms in Africa is that revenues accruing from commodities production are usually poorly allocated and or are used to cover for past crashes resulting in poor economic performance. This further complicates the commodities paradox, where even the rare booms can worsen the economies of commodity exporters. Thus, as UNCTAD observes, the commodities problem can only be eliminated through appropriate policies which can be guaranteed by better governance and efficient institutions, (UNCTAD, 2001). These would ensure that revenue generated by commodities exports can be allocated in such a way that strengthens the links between the commodities sector and the rest of the local economies - a *sine qua non* for sustainable economic development.

First, for most countries, the increase in the prices of tropical agricultural products during commodities booms, is not sufficient to compensate for the increase in the imports costs of, for example, manufactured products from the developed world. The outcome to these countries has been worsening balance of trade. Secondly, as A. Deaton notes, the severity of handling commodity fluctuations and “policymaking in Africa is so dysfunctional that price booms and price slumps are equally to be feared,” (Deaton, 1999, p. 34). High commodity price volatility produces both booms and crashes, which expose commodity-producing countries to severe macroeconomic shocks particularly in Africa. Booms do not translate to sustained increases in incomes, they are usually missed opportunities whereas crashes produce devastating and long-lasting declines, (Collier, 2002). So both ways, commodity-producing countries are bound to suffer. He further argues that countries dependent on primary commodity exports are not that blessed but rather cursed as they prove to grow more slowly than commodity scarce countries and that “price booms are so mishandled that it would be better for prices to stay low,” (Deaton, 1999, p. 34).

In Africa, strategies for industrialisation aimed at having domestic production displace imports financed by commodity exports has not been successful mainly because of lack of complementary factors mainly technical skills and education. As a result, Africa’s “comparative advantage” remained in the production and export of primary commodities. As P. Collier (2002, p. 1) argues, “Africa’s current comparative advantage in primary commodities is often due, not to its intrinsic endowments or location but to a poor investment climate that is policy related.” In several cases, when commodity producers do not have political power, taxation and over-valued exchange rates erode the incentive to produce and production revenues. In the worst cases, remnants of the revenue are used to support political bureaucrats. While foreign trade can be the engine that delivers the drive power for economic growth and development, this engine cannot be effective unless it is equipped with sufficient transmission lines. It follows, therefore, that commodities booms in Africa did not improve the conditions of African economies due to a paucity of sound policy initiatives, institutional weaknesses and misdirection of financial resources from the booms.

On the other hand, some economists argue that another reason for the failure of African economies to make notable progress on the basis of commodity booms was the inability of rural farmers to make an efficient and effective saving, consumption and investment decisions in the face of prolonged but ultimately temporal booms. This argument which seems to deprive farmers of any rational economic sense led some governments to institute policy prescriptions meant for the governments to assume a custodial role through marketing boards which would play stabilisation roles, (Deaton, 1999). The stabilisation role of the marketing boards would be through a system where the boards would pay farmers a less variable price, accumulating surpluses in good years and distributing them when prices plunge down. However, most governments had challenges in handling the inter-temporary allocations on their own account and in setting the macroeconomic environment in which marketing boards would operate efficiently. It was difficult for governments to retain rational control of public expenditures during incidents when public revenue significantly surpassed usual commitments made. This was not easy to reverse when booms burst. Moreover, during boom times, the international credit restrictions are suddenly eased, so that it is possible for governments to spend even more than the boom incomes, adding potential debt repayment difficulties to the menu of issues to be dealt with after the boom. As a result, some scholars argue that commodity booms may be worse off compared to periods where commodities fetch low prices on the international markets.

Meanwhile, the emphasis on manufacturing, however, led to a new spiral that scholars termed “the bias against agriculture,” (Bautista and Valdes, 1993). For these scholars, the main objective of development policy in most developing countries was rapid industrialisation. In actively promoting domestic industry, however, there was the distribution of price incentives against agriculture, substantially diminishing the positive effects of public investment policies meant to support agricultural production and marketing. In sum, they note that:

Production of agricultural exports were [sic] in an even worse position. They received no subsidies whatever and most farm products were subjected to an export tax applied either explicitly or implicitly through the pricing policy of state marketing boards, (Bautista and Valdes, 1993, p. 3.)

R. H. Bates also captures this scenario in developing countries’ agricultural policies. He argues that governments sought to promote increased agricultural production without necessarily strengthening economic incentives for commodity production, for example, through offering high farm prices but rather extract a surplus which could have been reinvested in the sector and appropriate it to manufacturing, (Bates, 1983). In the process, the governments introduced economic inefficiencies in the form of price distortions at the local level and in the process violated the economic interests of many farmers.

However, despite the heavy taxation, agriculture maintained a dominant place in developing countries’ exports. Many African countries notably struggled to use commodities revenue to promote structural change. Countries that have succeeded in diversifying away from commodities into higher value-added, more stable income earners such as manufactured products are mainly in Asia - Malaysia and Indonesia, and in Latin America - Brazil and Chile and rarely in Africa, (Page and Hewitt, 2001). The ISI led manufacturing industries were not able to export because naturally, they were concerned with satisfying the domestic market and also some structural challenges in the macro-economy and the production systems in general. These ranged from currency overvaluation, which made exports more expensive on the international market, high imports tariffs which made procurement of key capital goods almost impossible and generally, the poor quality of products which made them uncompetitive even on the domestic market. Consequently, developing countries relapsed into relying on the exportation of primary commodities despite the declining terms of trade.

Therefore, the contribution of commodity exports to the economic development of LDCs is limited in two major ways, first, at a global level, the declining terms of trade for primary commodities relative to manufacturing and second, at a local level, unsound policy choices and poor allocation of funds. In this case, African commodity-producing countries are not only characteristically exposed to the shocks, but also typically bad at coping with them. African governments have limited technical economic expertise to deal with the problems of price shocks and declining terms of trade. Their policies are more fractionalised into rival political groups and so may find it difficult to reach agreements on how to overcome macroeconomic challenges emerging from price shocks. This scenario whets an interest to probe the extent to which coffee and commodities production in Zimbabwe can contribute to effective economic transformation.

This situation compelled economists to reconsider ways that would ensure that developing countries would extract maximum benefits from trade in the commodities value chain. In this regard, Prebisch and the first United Nations Conference on Trade and Development (UNCTAD) in the 1960s, viewed international commodities agreements as tools for maximising export incomes for the developing countries in the long-term, (Prebisch, 1964). This ushered in an era where commodity agreements were negotiated and renegotiated under the auspices of the UNCTAD, for the broader spectrum of primary commodities for the developing world among which was the International Coffee Agreement (ICA), (Taringana, 2014). These were ostensibly designed to protect both producers and consumers against unexpected price fluctuations, although they had an explicit objective to raise the prices of the commodities albeit in a stable manner, (Page and Hewitt, 2001). The governments of both exporting and consuming countries agreed on the international commodity agreements as a way of stabilising commodity prices. The commodity agreements adopted commodity supply management schemes which relied on export quota agreements or stock management to avoid oversupply and at most drive prices high. Between the 1980s and 1990s, there was generally a reversal of policy emphasis on ISI, and an emphasis of the promotion of export-led growth strategy based on an attempt to maximise the income gains for primary commodities. In theory, export-led growth was not linked to any particular sector but needed to take place in whatever sector a country had a comparative advantage in, whether primary, secondary or tertiary. However, in practical terms, the reality of the global division of labour was still manifest, with the developing countries specialising in the export of primary commodities.

Market control vs free-market economic thinking

The introduction of commodity agreements as a way of market controls on the part of commodity exporters and consumers soon presented contradictions in the global capitalist economy matrix. Commodity agreements were viewed as market controls which conflicted with the basic principles of classical economics advocating for the prevalence of free market forces on the global markets. The friction between these economic thoughts within the context of global capitalism led to the demise of international commodities agreements in the 1980s and 1990s, (Daviron and Ponte, 2005). It was within this context that the collapse of the ICA in 1989 can be understood. Some economist argued that the costs of price stabilisation through commodity agreements exceeded the gains, (Newbury and Stiglitz, 1981).

As a result, many commodity agreements were disbanded in the late 1980s and 1990s or rather shifted their focus to exchanging information and improving market transparency. For example, the coffee agreement which was negotiated since 1962, was abandoned in 1989, the cocoa agreement negotiated since 1973 collapsed in 1988 while sugar, wheat and rubber agreements collapsed in 1985, 1995 and 1999 respectively, (Page and Hewitt). The few commodity agreements that still subsist have reduced their activities to mere “study groups”, some with new purposes such as providing data, research

and promoting sustainability. They have abandoned the explicit stabilisation measures, leaving this to operations of the market forces.

A new breed of researchers dubbed *new political economy* scholars developed a case against any form of intervention on commodities markets. These scholars analysed agricultural policies in “developed” countries and examined the role of private interest groups, farmers for example in shaping national policies compared to “developing” countries’ agricultural policies where the role of state bureaucrats and politicians was underscored. Their conclusion is that markets are less efficient than free markets. The view of the state as a predatory and clientlist machine progressively came to dominate these studies, (Bates, 1981). Bates (1981), for example, typifies this perspective to a point where almost any form of intervention in agricultural commodities markets came to be seen as retrogressive.

Generally, the *new political economy* arguments were used by aid agencies to promote the liberalisation of agricultural markets. This took the form of the infamous Economic Structural Adjustment Programmes (ESAPs) which consisted of three major features – 1. privatisation of public enterprises which processed and/or marketed commodities. 2. deregulation and promotion of competition in input and output markets and 3. the elimination or reduction of subsidies and taxation – including the elimination of domestic price stabilisation devices, (Daviron and Ponte, 2005). This development led to a significant erosion of the bargaining power of commodity producers when it comes to their dealings with buyers at the global level. Increasingly, international buyers dictate prices and terms of business to suppliers, making them unprofitable.

During the international commodities agreement regimes from the 1960s to the 1980s, developing countries managed to extract some benefits from commodities trade, particularly price stability, albeit within the limits imposed by the declining terms of trade. The international coffee market was comparatively stable from 1962 to 1989. This was influenced heavily by quota agreements from the International Coffee Organization (ICO). Before 1990, the main function of the ICO was to assign quotas to each individual country according to its past exports or stocks. Since the collapse of the International Coffee Agreement (ICA) in 1989, the ICO assumed the role of a forum for intergovernmental cooperation to improve coffee trade among countries and promote a sustainable coffee economy for participants, particularly for producing countries. Under the ICA, the ICO set quotas among a number of producing and consuming countries to manage the market, but the ICA was abandoned soon after trade liberalization in 1989 since coffee-producing countries were eager to explore more trading partners around the world. The collapse of the ICA led to several producing countries dismantling their centralised marketing systems and starting operating in a free market, (Shepherd, 2004). This partly explains the establishment of the Zimbabwe Coffee Mill in 1993, as part of liberalizing the local coffee market.

The demise of the ICA was disastrous for many producing countries and there were glaring differences in price behaviour during and after ICA. For instance, in the 1980s, before the collapse of the ICA, coffee prices were 33.6 percent higher with a standard deviation 27.7 percent lower than the post-ICA period, (Ghoshray, 2010). Coffee prices dropped by nearly 75 percent in the subsequent five years, from US\$1.34/lb. in 1989 to an average of US\$0.77/lb. through 1995, (Dailycoffeenews, 2014). This was worsened by deregulation which led to immediate increases in the supply of low quality coffee on the international market. Robusta coffee production, for example, increased by more than 100% from 18.8 million bags per year under the regulated market (1963-1989) to 39.3 million bags per year under the free market (1990-2013). In 2013, Robusta production was estimated at 56.5 million bags, representing a 38.9 percent share of the world’s coffee production, up from a 27.5 percent share in 1990. On contrary, the supply of high-quality Arabica coffee declined. In 2013, 89 million bags were produced representing 61.3 of the world’s coffee production, down from Arabica’s 72.5 percent share

in 1990. In the regulated period, Arabica production averaged 57.5 million bags per year, compared to 73.4 million bags per year since 1990, (Dailycoffeenews, 2014).

This trend presents a situation where there was an increase in the low-quality coffee and a drop in the coffees of high-quality, further compounding the global coffee paradox. Africa suffered most from the collapse of the ICA as a producer and is the only growing region to have negative growth since 1963 and lost a greater part of its global coffee market share. The region averaged 19.1 million bags during the ICA period, down to 15.8 million under the free market, representing a decrease in the world's share from 25 percent to 14 percent, (Dailycoffeenews, 2014). The ICO attributed these declines to a number of factors, including structural factors and ageing coffee trees resulting from a deregulated market channel to Europe, local deregulation programmes throughout the 1990s and regional conflicts affecting specific countries. In 2013 production was at 16.7 million bags, representing what the ICO has called "stagnation under 20 million bags" since 1990, (Dailycoffeenews, 2014).

In the early 1980s, producing countries retained 20% of total income on average and consuming countries retained 55%, (Xi-Le Li, 2016). After the collapse of the ICA, producers only retained 13% of the total income and consuming countries retained 78%, (Ponte, 2002). This trend continued for subsequent years given the low prices and the murky market situation. Further, after 1989, coffee-producing countries were in messes. Prices fell to their lowest levels in years, and farmers lost much-needed income. The economic impacts of these trends in coffee were of such importance that the production side faced its worst crisis in history. The coffee industry was trapped in a vicious cycle of excess supply, sluggish demand and collapsing prices, (Xi-Le Li, 2016). Conversely, in importing countries, markets expanded, product differentiation increased and profits improved thereby worsening the coffee enigma. Firms and roasters in consuming countries were, as they have been, more successful in capturing downstream margins than most producers, whose share of value declined substantially from about 30% of the total to about 5% between 1989 and 2004, (Lewin, 2004). At least during the ICA regime, commodity exporters were able to exercise significant control of the world commodity markets and managed, in the process, to appropriate to themselves fair prices.

The end of international commodity agreements, particularly the coffee agreement, led to the adoption of an array of supply management strategies through producer-only agreements. Coffee producers, for example, agreed to hold back exports and push prices high. Central American countries including Brazil and Colombia rolled out retention schemes and some production controls designed to solve the problem of oversupply, (Calfat and Flores, 2001). In a similar manner, African producers took their own initiative to pursue similar retention schemes. African countries reached an agreement on the modalities for a retention plan under the supervision of a newly established Association of Coffee Producing Countries (ACPCs) in 1993. The declaration establishing the ACPCs indicated that the Association's aim was to balance world supply and demand to stabilise coffee prices at a fair level for producers, achieving at the same time increasing consumption levels. Signatories of the ACPC agreed to retain 20% of their stock when the indicator of price was below US\$0.75/ lb, only 10% for prices between US\$0.75 and US\$0.80/lb, while the retention scheme would be suspended, (Calfat and Flores, 2001). However, a limitation of this agreement was its degree of difficulty in ensuring compliance since consumer countries did not participate in the schemes by requiring a certificate of origin for all coffee imports entering their markets. In addition, finding adequate finance to monitor the agreement, through an international control organisation, or financing the cost of stocking the additional coffee being held off the export market, or simply destroying or diverting stocks to alternative uses, was particularly onerous for many developing countries.

Generally, producer-only initiatives aimed at stabilising coffee prices failed to yield positive results as it was difficult to maintain discipline among members, particularly when faced with aggressive competition from non-member “free-riders,” (FAO, 2003). Resorting to producer only strategies of stabilising commodity prices was not a new phenomenon. Brazil used the strategy from 1906 through the coffee valorisation programmes, and later agreements were reached for such supply management schemes in Central America during the first half of the 20th century. However, this was not considered effective and called for the participation of the consuming countries through the international commodities agreement, (Taringana, 2014). In this context, relapsing to a strategy which once failed is reflective of a situation where producing countries are in an eternal round-about for measures that can improve their lot. This scenario provokes questions on whether there would be any effective ways of improving the earnings of commodities producers, and whether commodities can be relied upon to effectively fund any sustainable development project in commodity-producing countries.

The weaknesses of supply management strategies on the part of producing countries led to a significant reliance on compensatory finance schemes as a way of managing risks of international commodity price volatility and to some extent declining terms of trade. Compensatory finance schemes designed to smooth out revenue flows to commodity producers were established in the 1970s and expected to complement the international commodities agreements in stabilising commodities prices. These schemes were designed to provide relief payments to producing countries when events caused export revenue to fall. Examples of such compensatory finance mechanism were the International Monetary Fund (IMF’s) Compensatory Finance Facility (CFF) and the European Economic Community (EEC’s)/European Union (EU’s) Stabilisation of Export Earnings (STABEX) and Facility for Fluctuations in Export Earnings (FLEX). Zimbabwe was once a beneficiary of the STABEX Scheme which was introduced in the first Lomé Convention of 1975 with the aim of stabilising export earnings of the African, Caribbean and Pacific countries (ACP), (UN, 2011). Its link with commodities was entirely in the security function where a 6.5% drop of export earnings from the EU relative to a 4 –year trend brought forth automatic compensation payment for the government to use it as it saw fit, (Page and Hewitt, 2001).

Under the framework of the Lomé IV Convention, the Zimbabwe coffee industry qualified for funds under the STABEX System for the development of the industry, (ZCM, 2006). Zimbabwe benefited from STABEX in 1992/1993 and 1994. These funds had a significant impact on the Zimbabwean coffee industry until the funding was suspended in 2005. The most notable programmes funded by STABEX in Zimbabwe were the provision of inputs to smallholder farmers, the establishment of the Zimbabwe Coffee Mill, and develop irrigation potential for coffee producers in the Honde Valley among other projects. However, the European community increasingly persuaded and then required the recipients to invest STABEX funds in the sectors and activities which were themselves the causes of earning instability thereby aggravating the commodity-dependence problem, (Page and Hewitt, 2001). During the 1990s, at least half of the EU member states wanted STABEX abolished because it was deemed inefficient, inequitable and counterproductive. As a result of these developments, STABEX was abolished by the Cotonou Agreement in 2000. Yet the recipient African, Caribbean and Pacific (ACP) countries implored STABEX to continue. This exhibited the extent to which the ACP countries became so dependent on STABEX handouts, as they had become financially addicted to regular STABEX infusions. The Zimbabwean government, for example, implored the European Union to re-engage and reactivate the flow of STABEX funding to the coffee industry. However, the common ground agreed upon was not implemented, (ZCM, 2006). Generally, the benefits provided by STABEX have been minimal. After the facility was abandoned in 2000, it was replaced by the FLEX programme which had more stringent eligibility requirements. Although the facility continued to exist beyond 2015, it had become a redundant facility whose focus changed from managing commodities shocks.

Demand-side solutions were also proposed by both exporting and importing countries as a solution to deal with demand inelasticity and declining terms of trade. This was couched within measures designed to boost demand in consuming countries through generic promotion. Nevertheless, the slow population growth characteristic of consuming countries made it practically impossible to significantly increase consumption, and the result was market saturation due to increasing supply from the producing countries which was not matched with an increase in the consuming population. Efforts have also been made to try and expand coffee consumption in the developing countries. Emerging and underdeveloped markets with less than 2 cups of coffee per capita per day were considered to offer opportunities for the expansion of coffee markets, (Pelupessy, 2008). However, in most developing countries, coffee consumption is stagnating with the exception of the large domestic market of Brazil and to some extent Costa Rica. This has been criticised for failing to deliver positive results to the producers. Processors, roasters and marketers are the once who benefit much from this as they control the most lucrative parts of the value addition process.

CONCLUSION

From the foregoing, it is clear that there exists a global commodities problem, particularly for the developing countries. Attempts to escape from this trap through diversification into manufacturing did not yield any significant benefits and attempts to control the world markets through the international commodities agreements also failed, as this was deemed contrary to the principles of free-market economics. Therefore, commodity-exporting countries continued to grapple with the problem of declining terms of trade for primary commodities. Economic historians are beginning to question the sustainability of economies based on commodity exports, whether commodities can still be considered an engine for economic growth and development. This paper, therefore, argues that, whatever commodities the developing countries are producing, the extent to which these commodities can contribute to economic development is already limited to the extent to which the terms of trade are declining at every given time, which is also a function of the frequency of booms and bursts. In this framework, commodities production and exports seem not to offer a clear path for developing countries wishing to upgrade to rewarding value addition processes for their output and the skills of their labour forces. In many countries, the producers and workers directly affected by commodity exports are among the poorest parts of the population. Negative price volatilities affecting them put daunting strains on efforts to reduce poverty.

Moreover, within the limits imposed by the declining terms of trade, are other variables which can further suppress the contribution of commodity exports to the economy, or inversely which can allow individual countries to realise their full potential within the broader limits were noted. These variables include among other things, government policies concerning specific commodities in their individual countries, the level of support or lack thereof towards the development of specific sectors among other things. However, policy bankruptcy and institutional impotence in the developing countries seems to further shutter prospects for commodity exports initiated economic development in the developing countries. This underscores the need to re-examine the commodities and development nexus to better reflect the new developments in the global commodity and financial markets. Coffee production in Zimbabwe was, therefore, carried out in an international context of declining terms of trade. However, it interests how specific government policies in Zimbabwe on coffee either promoted or hindered the coffee sector in the country within the limits posed by declining terms of trade

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