

Are Improving Terms of Trade Helping Reduce Poverty in Africa?

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Throughout the 1990s, the old slogan *'trade not aid'* aggressively pushed the idea that export performance and poverty reduction were intimately related. In recent years, however, there has been a growing realisation that links between the two are far from automatic and that serious mismatches can occur.

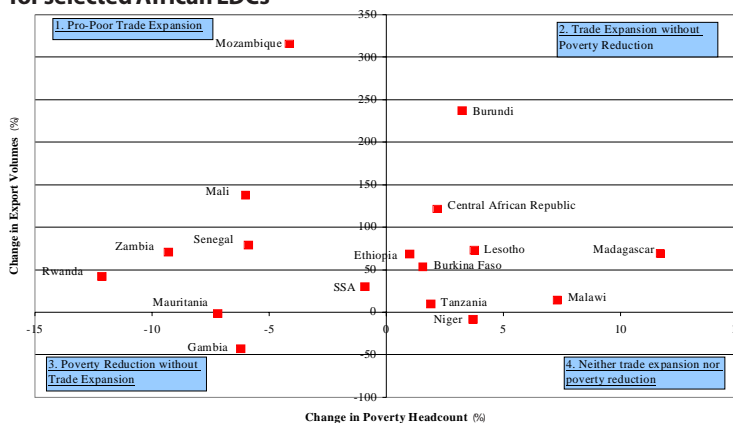
One illustration of this is the apparent mismatch in Africa between export performance and poverty reduction. Pessimistic assessments of African export performance abound. But these may not be totally merited. During 1996-2001 UNCTAD estimates of trade *volumes* (as opposed to trade *values*) show that some African LDCs achieved a very respectable increase in exports. Yet, this expansion was not accompanied in many cases by significant poverty reduction. For example, Madagascar and the Central African Republic expanded their exports by nearly 70% and 121% respectively over this period, yet their dollar-a-day poverty headcount *increased* by 12% and 2%. (See Graph). In Burundi, a 236% increase in export volumes resulted in a 3% *increase* in the poverty headcount.

In value terms many Africa's exports slumped over this period, as volume increases were not enough to offset collapsing real export prices, like those of coffee, palm oil, cocoa and cotton. In spite of small-holder farming still being predominant in Africa, exports of these commodities have not only failed to contribute to poverty reduction, but also have not prevented it from rising.

Recently reported record highs in commodity markets, driven by strong demand from China and India, do improve the terms of trade for commodity producers. However, major increases have been in minerals (commodities such as copper) and fuels, but agricultural commodities (or 'soft commodities'), the mainstay of African economies, have remained low.

Moreover, while the increase in fuel and mineral prices has had a favourable impact on some African countries, it has also caused a cleavage between exporters of hard and soft commodities. Countries such as Nigeria or Zambia are benefiting from their oil and copper exports, but others such as Uganda or Ethiopia, whose export earnings depend on soft commodities (and rely on the import of hard commodities, especially fuel), face an extremely difficult situation. The emergence of transcontinental value-chains dominated by Northern supermarkets and retail firms has added

Trade Expansion and Poverty Reduction, 1996-2001 for selected African LDCs¹



further complexity, raising problems of excessive market power on the part of buyers, and leading to a low and declining share of total value-added for African producers.²

The importance of agriculture for poverty reduction hardly needs emphasizing. Approximately 80% of the population of sub-Saharan Africa live in rural areas, and 70% depend on food production. Yet over the last two decades, policymakers in the North have generally turned a blind eye to the development problems caused by volatile commodity prices. Illustrations laid out here suggest that a new and more nuanced look be taken at the relationship between trade, economic growth and poverty reduction.

Clearly, for exporters of agricultural commodities, the first bit of long-term advice is to get out of commodities, and be careful about where they move into manufacturing production or services. But African policymakers are keenly aware that economists have typically been long on recommending diversification and short on practical advice about how to achieve this goal. Policies to reduce poverty must find mechanisms to reduce price volatility and improve the terms of trade for these 'soft' commodities. A completely free-market, non-interventionist stance on commodity markets has evidently failed the poorer developing countries.

Notes:

1. Own elaboration based on ECA's poverty estimates from country's household surveys and UNCTAD (2005), Statistical Yearbook (cd-rom).
2. See P. Gibbons and S. Ponte (2005), *Trading down: Africa, Value Chains, and the Global Economy*. Philadelphia: Temple University Press.