



Policy Brief

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International Trade and Poverty in Côte d'Ivoire

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The context, the problem and justification

The fight against poverty in developing countries remains a major challenge as testified by the putting in place of the poverty reduction strategy papers (PRSPs) under the supervision of the World Bank and the IMF. If these papers aim at restoring social cohesion, they are also instruments of adaptation of African economies to the new world economic order characterised by globalization through increased liberalization of trade. However, free trade does not benefit all the actors of the economy. In the face of this observation, the problem of the distribution of trade gains in developing countries, in particular in sub-Saharan Africa, where wealth is already very unequally distributed, is henceforth at the centre of the debate on globalisation and its effects (Fofana, I. et al. (2006). Thus, several sub-sectors have been recently looked into the effects of the liberalisation of trade on income distribution and on poverty in sub-Saharan Africa. If in some cases international trade and the reforms associated with this activity by acting on growth can contribute to reducing unemployment, increasing incomes and improving the welfare of the poor, in other cases, negative effects penalising the most disadvantaged were noted. The reason is that the poor are generally deprived of means and capacity allowing them to seize the new opportunities offered by the world market. This divergence of the results of the distributive impacts of free trade could be attributed not only to the specificities of the studied economies, but also to the multiplicity of analytical tools (Fofana et al, op cit).

Côte d'Ivoire, a big exporter of agricultural products, benefited before the crisis from 1980 and after the devaluation of the CFA francs in 1994 from the positive effects of international trade. However, the impact on poverty reduction is insufficiently analysed especially after the liberalisation of the agricultural export sub-sectors on the one hand and on the other hand after the multiple commitments at the regional level (implementation of a common external tariff (CET), the signature of the

agreements of the World Trade Organization, the signature of the economic partnership agreement between the ACP States and the EU). The concern is thus to know if trade liberalism and the reforms which it implies are better for our economies. Has it really contributed to reducing poverty in Côte d'Ivoire? If not, how can Côte d'Ivoire, a potential producer of exportable agricultural products, benefit from the globalization of the economy?

The interest of such an analysis is to seek arguments in favour of poverty reduction through trade. In other words, it is a question of seeking the mechanisms by which trade can help to in a notable reduction of poverty, the first goal of the Millennium Development Goals (MDGs). This concern constitutes Goal 8 of the MDGs and target 12 which aims at pursuing the putting in place of an open multilateral trade and financial system founded on rules, predictable and non-discriminatory.

Method of analysis

To grasp the impacts of macroeconomic policies and shocks on income distribution and poverty in developing countries, instruments have been developed by economists. Considering the economic interdependence and the retroactive effects the behaviours of the economic agents, this type of questioning ideally fits into a calculable general equilibrium model (CGEM), taking into account the structure of the economy as a whole and the interrelationships between the various economic agents (Cockburn ,2001); Fofana et al., op cit). The general equilibrium analysis has in addition the advantage of presenting an overall picture of the economy and the transmission channels of shocks on the microeconomic agents by taking account of the macroeconomic constraints inside which they operate. On the other hand, this analysis necessitates the reconciliation of the macroeconomic and microeconomic behaviours which are not always to realize. However, according to the study of Dervis, Mello and Robinson (1982), it is possible to approximate the impacts of macroeconomic shocks on poverty by postulating that each category of household identified in the CGEM is in fact an aggregate of heterogeneous households which one can grasp heterogeneity if the functional form of the intra-category income distribution. Thus, several forms of the distribution function have been proposed (normal distribution, Pareto, Bêta, etc.) in order to capture the intra-category heterogeneity of households. Postulating that this distribution remains unchanged before and after the shock, it is then possible to calculate the variations in the usual poverty indicators. Nevertheless, this method remains difficult to apply and requires sufficient time.

A second instrument of analysis of the links between trade and poverty is the use of the value chains of the key sectors of the economy. This method endeavours to analyse the distribution of the value added or the revenue between the various actors of the sector beginning with farmers to retailers. One can cite within this

framework the studies of Humphrey (2002)¹, USAID (2006)², Christophe Béné (2008), Fitter and Kaplinsky (2001: 16) and Kaplinsky and Prism (2007).

Lastly, statistical and econometric analyses can make it possible to establish a link between trade and poverty if transverse and/or chronological data exist. In this respect can be cited the study of Ravallion (2004).

In the facet applied to Côte d'Ivoire, taking into account the data constraint, we first used statistical analyses by weighing up the situation of international trade and the trend of poverty of households operating in the key export sub-sectors of Côte d'Ivoire. The methodology used for the estimation of poverty indicators is the FGT method³. The data used are those of the standard of living of households surveys of 2002 and 2008 carried out by the National Institute of Statistics. Secondly, we used the value chain analysis by analysing the distributions of the revenue generated along two export sub-sectors which are cocoa, a traditional product of which Côte d'Ivoire is the top producer and the cashew nut, a non-traditional but emerging export product. This product today constitutes the second export product in Côte d'Ivoire.

Principal results

The empirical results of many sub-sectors show that international trade and the liberalisation of trade that it leads to has ambivalent effects. On the one hand, positive effects have been noted [the World Bank (2004), Cline (2004), Dollar and Kraay (2002), Fu and Alasubramanyam (2005), Nicita (2006), Trefler (2001), Schuch and Tries (2003), Arndt et al (2000), Krueger and Berg (2003), Milner and Wright (1998), and Revenga (1995), Nicita (2006), Fu and Alasubramanyam (2005), Bhagwati and Srinivasan (2002)].

On the other hand, the effects are insufficient with regard to job creation, equity in income distribution or poverty reduction [Rodriguez and Rodrik (1999), UNCTAD (2004), Santos-Paulino and Thirwall (2004), the ILO - OMC, (2008), Christophe Béné (2008), Gaston and Trefler (1997), Santos-Paulino and Thirwall (2004), Schuch and Tries (2003), Rama (1994), Ravallion (2004), the ILO-WTO, (2008)].

In the fashion of countries, the impact of the various trade reforms on poverty also seems ambivalent. Côte d'Ivoire is one of the developing countries very integrated into international trade which have carried out reforms either to face up to the volatility of prices or with a view to stabilization and diversification. Stabilisation has

¹Humphrey, John (2002), "The Value Chain Approach – Linking National Producers to International Buyers and Markets", Executive Forum on National Export Strategies, Institute of Development Studies, University of Sussex, Brighton, UK.

² USAID (2006), "Indonesia cocoa bean value chain study", MicroReport#65

³ Foster, James, Greer, Joel, and Thorbecke, Erik, 1984, "A class of Decomposable Poverty Measures". *Econometrica* 52: 761-765.

not given the anticipated results. Over the period of the structural adjustment programmes (SAPs), the stabilization fund was not able to guarantee the price stability in the face of deterioration of the terms of trade. The liberalisation of the key sub-sectors in its turn from 1997 only generated the substitution of State monopoly for domination of Western multinationals, exposing producers to the whims of the market forces. The results of liberalization on poverty reduction are far from being satisfactory. Indeed, the international price has as a whole been after liberalization than before, so that producers have obtained lower incomes from the sale of their products after liberalisation. It is important to specify that the “liberalization and privatisation policy” has been followed in a brutal and poorly prepared way. It has instead resulted in the establishment of multinationals in Côte d’Ivoire. This movement of concentration resulted in the quasi total exclusion of small or average shippers, thus favouring the emergence of dominant positions” (Bank of France, 2001, 222). It is noted on the one hand that the excluded operators are mainly nationals. In addition, the reforms carried out finally led to a situation in which the government of Côte d’Ivoire is seemingly in retreat, but in practise has largely retained power on private institutions (BCC, FRC, ARCC) which function like a kind of “private CAISTAB” with complex institutional mechanisms.

These various ills, added to the situation of economic crisis, have generated increased impoverishment in Côte d’Ivoire (PRSP, 2009). In 2008, one person out of two was poor compared with one person out of ten in 1985. Poverty thus experienced an upward trend, moving from 10% in 1985 to 36.8% in 1995 and to 33.6% in 1998 before going back to 38.4% in 2002 then to 48.9% in 2008 because of the successive socio-political and military crises. This poverty is more accentuated in rural areas than in urban areas. In rural areas, it moved from 49% in 2002 to 62.45% in 2008 compared with 24.5% and 29.45% over the same period in urban areas. It thus the agricultural zones which are therefore the most affected by poverty. However, agriculture contributes 27% to the GDP, employs two thirds of the active population and provides, with the food-processing sector, 40% of export earnings.

The main actors of the various export sub-sectors have been particularly affected by the increase in poverty. At the level of hévéa, the lowness of the rate of local processing, less than 1% in end dry rubber products, made lose the sub-sector and the State lose significant financial resources. This sub-sector is particularly confronted with the fluctuation of the prices of latex on the international market.

In the light of the table below, the agricultural world has experienced a rise of poverty which differs according to the crop cultivated.

Agricultural export sub-sector and trend of poverty

Agricultural crop	2002-2003		2006 - 2007	
	Incidence of poverty as %	Growth rate of exports in value	Incidence of poverty as %	Growth rate of exports in value
Coffee	52.3	-10%	65.7	36.68%
Cocoa beans	52.4	-16%	60.8	-4.64%
Palm tree	33.5	23%	49.6	-6.68%
Banana	54.6	-1%	62.4	17.70%
Hévéa	31.7	18%	31.8	35.67%
Cotton	43.9	10%	84.7	-24.81%
Cashew nut	57.4	-36%	66.7	-9.12%

Source: From the data of the National Institute of Statistics /Ministry of Agriculture /Department of Economics

All producers, whatever the crop, saw their standard of living worsening except for the producers of hévéa who have a relatively stable situation. Between 2002 and 2008, cotton producers underwent the biggest rise of poverty at 93%, followed by producers of palm tree oil, coffee, cocoa, cashew nut and bananas at 48%, 26%, 16%, 16% and 14% respectively. In spite of the big rise of the level of poverty, palm tree oil producers have an incidence of poverty (49.6%) below the national incidence of poverty with those of hévéa (31.8%). The others have an incidence of more than 60%.

All in all, farmers' incomes are increasingly reduced because of the lowness of agricultural productivity, of the drop in sales of productions, the low buying price of agricultural products. To these causes are added the large post-harvest losses, the low level of conservation and processing of the agricultural productions, the generalised ageing population of coffee, cocoa, oil palm and coconut trees, the insufficient use and low mastery of the modern farming techniques (PRSP, 2009).

Nevertheless, in spite of this extensive impoverishment in rural areas, the expansion of trade in non-traditional products has been a relief for many farmers. In terms of employment, the increase in the number of jobs in the non-traditional sector has experienced significant growth, the correlation being very high between the volume of productions and the consumption of labour. Producers who have been directly or indirectly affected by the activities of the non-traditional agricultural sector are estimated at approximately 12,000 whereas they were less than 6,000 in 1996.

The analysis of the link between poverty and trade can also be carried out through the value chains of the export agricultural sub-sectors. Indeed, these various value chains are labour-intensive. Productions in these sub-sectors are ensured by farmers who hold small parcels of land. An analysis of these various chains shows that economic agents located in the importing countries monopolize an increasing proportion of the total incomes of its chains. Côte d'Ivoire's low capacity in these various chains, the parcelling out of production and the disappearance of marketing boards make the farmers vulnerable to the shocks of the international market and thus unable to improve their position in the value chains.

From the analysis of two key sub-sectors of Côte d'Ivoire's economy, namely, cocoa, a traditional product and the cashew nut, a non-traditional product, it emerges that three actors hold the bulk of the capacity: crushing multinationals, manufacturing multinationals and retailers. These various actors certainly compete to increase their respective shares in the value chains but can nevertheless agree to so that that of farmers, middlemen or the State of the producing country is reduced to the smallest share (Fitter and Kaplinsky, 2001:16). In the same way, the geopolitical context through the opaque management of liberalization by the government of Côte d'Ivoire, multinationals and the international financial institutions (the World Bank, the IMF) act in disfavour of Côte d'Ivoire's producers and the local actors in these sub-sectors who find themselves marginalised. Indeed, the domination of the various activities of these sub-sectors by Western and Indian multinational corporations does not contribute to introducing a liberalisation favourable to the nationals. Currently, only nearly 10% of cocoa exports are provided by nationals. Crushing (semi-processing is entirely done by these multinationals. However, it is at this level that most of the local revenue is. The position of the multinational crushing corporations was strengthened with the reduction of the single entry duty⁴ on semi-processed products (cocoa butter, cotton mass, oil cakes). In such a context, it becomes difficult to promote poverty reduction programmes without direct actions for the benefit of the principal actors who are national producers and participants.

Conclusion and economic policy implication

This study attempted to analyse the link between trade openness and poverty in Côte d'Ivoire. Indeed, trade can be a powerful instrument of poverty reduction if changes are made in the domestic and external policies. This essentially consists in improving the structure of the value chains for the benefit of the poor. One of the objectives of the liberalization of important sub-sectors of the economy actually consisted in improving the income of producers, the principal actor of the sub-sector through a transparent operation of the market free from official interventionism. The

⁴ The single entry duty for semi-processed products was respectively 125 CFA francs, 165 CFA francs and 90 CFA francs for cocoa butter, cocoa mass and oilcakes between 2002 and 2007 while the level was 220 CFA francs for raw cocoa.

relation between liberalization and trade received a very a great deal of attention at the end of the 20th century. However, it remains difficult to establish a robust link between these two phenomena the World Bank recognized (2000). This situation results from the fact that the influences individuals in several ways. It can influence their income through employment, allocation of resources and/or economic growth. It can also affect the expenditure of individuals through consumer prices (Winters, 2006).

Finally, it emerges that if trade liberalization offers growth opportunities, it does not necessarily influence poverty reduction. Indeed, the costs of trade liberalisation, the obstacles which can prevent drawing benefit from it and the fact that certain countries or categories of populations will end up as losers are today assessed better (Stiglitz and Charlton, 2005). However, trade liberalization is essential because of the narrowness of our local markets. The current concern is especially of knowing how to benefit from the trade openness to reduce poverty in Africa.

In Côte d'Ivoire, in spite of the liberalizations of the agricultural sub-sectors, the pioneers of the country's economy, poverty remains rather alarming in rural areas. In 2008, approximately one Ivorian out of two was poor. This poverty is higher among the producers of the principal export crops. However, States such as Côte d'Ivoire, which are in the dynamics of this process, must endeavour to create the necessary conditions so that their poor population can benefit from trade openness. Indeed, the emerges from the empirical analyses on the one hand and those of the value chains on the other low participation of the nationals in the agricultural export sub-sectors especially in the level where the revenue is highest. The producers, the main actors of these sub-sectors produce at a loss for the benefit of the various middlemen. Bernard Conte (2004) speaks about an impoverishing liberalization considering the results of this institutional reform in Côte d'Ivoire.

In two analyzed cases (the cocoa sub-sector and the cashew nut sub-sector), processing and exportation are carried out by Western multinationals and Indians who at the same time provide the governance of the two chains. The liberalization of the two sub-sectors since 1997 did not have a positive impact on the reduction of the poverty of producers because of the anarchistic functioning of the various agricultural sub-sectors. Quite to the contrary, poverty increased and is increasing, especially with the deterioration of the political, economic and military environment. And yet, these two sub-sectors, if well organised, can significant reduce rural and urban poverty. It finally emerges through the analysis of the value chains that the recrudescence of the poverty of producers is due to the fact that the mechanism of redistribution of the revenue generated by the exportation of agricultural products is poor at the level of the poorest strata of the population, which contributes to generating an absence of a correlation between trade and poverty reduction. Indeed,

income from trade is squandered before having the chance to have an impact on the economic and/or human development indicators (Béné, 2008).

It follows from this that if Côte d'Ivoire wants to use international trade as a poverty reduction tool, it is necessary to examine all the value chains of the key products which it markets at the international level and to identify how the trade revenues are distributed at each stage of the chain. Then, it is necessary to consider how changes could be introduced into the system to ensure that the benefits of trade are translated into the country's human and economic development.

On the whole, in order for trade liberalization at the international level to influence poverty reduction positively, the following actions are necessary:

- To master the local particularities and to determine the factors likely to influence the process of implementation of trade reforms;
- To ensure good performance of markets and accessibility of financial services, information and technology;
- To see to the elimination of the concentrations of activities along the agricultural export sub-sectors by only one type of actor (multinationals) through advantageous competition with the nationals;
- To modify the structure of exports through an intensification of exports of processed or semi-processed products so as to retain a consistent value added for the financing of the economy;
- To ensure rigorous macroeconomic management to reduce vulnerability to external shocks;
- To reform the liberalization trade policies by taking account of past experiences;
- To re-examine the organisation of the sub-sectors with high export potential through a positive discrimination for the benefit of the principal national actors: farmers on the one hand and national enterprises on the other hand;
- To build analysis capacity and to finance rigorous case studies making it possible to have the effects on each type of population in order to better orient policies and to improve their impact;
- To strengthen national skills recover support activities for the various value chains of agricultural products such as cocoa, cashew nut, hévéa, pineapples, bananas, wood and many other products in which Côte d'Ivoire has a revealed comparative advantage; and
- To promote quality and transparency on all levels of the business environment in Côte d'Ivoire if one wants to reduce poverty through trade.

It seems especially urgent to modify the structure of exports through an intensification of the exports of processed or semi-processed products so as to retain a consistent value added to finance the economy, stimulate growth and significantly reduce poverty.