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UNITED NATIONS
ECONOMIC AND SOCIAL COUNCIL

Distr.:
LIMITED

E/ECA/TRADE/89/26
10 November 1989

Original: ENGLISH

UNITED NATIONS
ECONOMIC COMMISSION FOR AFRICA

Technical Meeting of Experts to the
Tenth Meeting of the Conference
of African Ministers of Trade

Addis Ababa, Ethiopia
13-15 November 1989

TRANSNATIONAL CORPORATIONS IN AFRICAN TRADE

Major Trends in Primary Commodities

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Introduction

1. The inductive method of investigation, as a procedure from the particular to the general, is the strategy of choice employed by the United Nations Economic Commission for Africa (joint ECA/-UNCTC unit on Transnational Corporations) in its programme of inquiry into the phenomenon of burgeoning transnationalization and its effects on broad issues of development and underdevelopment. Towards that end, a series of case studies have been undertaken on the activities of transnational corporations in different African countries.

2. In addition to spotlighting trends in the structure of export trade and overdependence on the export of primary commodities, this summary of integrated case studies highlights the activities of transnational corporations in the export trade of selected primary commodities with reference to sample African countries: bananas (Cote d'Ivoire, Cameroon, Somalia), sugar (Zimbabwe), coffee (Burundi), tea (Kenya), tobacco (Kenya, Zimbabwe), cotton (Sudan, Tanzania), and hard wood (Cote d'Ivoire).

Trends in the structure of commodity export

3. For nearly a decade and half from 1970 to 1984, the aggregate value of global exports, covering 182 commodity groups at the 3-digit level of SITC (Standard International Trade Classification), posted a six-fold increase, at an average annual growth rate of 15.6 percent, from US$ 310.2 billion in 1970 to an average of US$ 1,850.2 billion for the period 1983-84. Over the same period, the relative share of developed market economies registered a decline of just over 7 percent from 71.72 percent (US$ 222.5 billion) in 1970 to 64.43 percent (US$ 1,192.1 billion) in 1983-84. On the other hand, developing market economies scored a gain of about 6.5 percent from a little over 18 percent (US$ 56.9 billion) in 1970 to just under 25 percent (US$ 458.8 billion) in 1983-84. The redistribution of the relative share of world exports between developed market economies and developing countries, in favour of the latter, does not seem to tally with the general economic conditions of these countries.

4. But before cheering about trends based on highly aggregated figures, the internal structure of the universe of 182 commodities making up the whole group merits a closer scrutiny.
The apparent gain in the aggregate proportion of world export value accruing to developing market economies may be tentatively attributed to two main factors: principally, structural shift in the economies of some developing countries towards greater

industrialization, notably, newly emerging industrial countries of the Pacific Rim and subordinately, increase in the supply of primary commodities in response to general downward trends in their prices on the world market.

5. The relative share of export value accruing to all export commodities registered a general decline. Over a period of fifteen years, the relative share of 130 commodity groups declined, 12 groups remained unchanged, and 40 commodity groups gained in share. The set of commodities whose share fell in the structure of world exports includes virtually all food and non-food primary agricultural commodities. All selected primary commodities spotlighted here, without exception, experienced a decrease of relative share during the period under review. Between 1970 and 1984, among food commodities, the relative share of fresh fruits (051) dropped from 0.80 percent to 0.49 percent, sugar and honey from .88 percent to 0.59 percent, coffee from 1.02 percent to 0.59 percent, cocoa from 0.36 percent to 0.20 percent, tea and mate from 0.20 percent to 0.10 percent, hard wood from 0.59 percent in 1970 to 0.26 percent in 1984 and the share of cotton declined from 0.80 percent in 1970 to 0.35 percent in 1984.

6. Manufactured goods in general were the net gainers in the shifting structure of global export trade. The first top ranking ten export commodities, from mostly petroleum and manufacturing industries forming the core of these groups, claimed more than 40 percent of the aggregate value of world exports in 1984. At the level of the leading 20 commodities, the figure tops 50 percent of the value of all commodities exported world wide.

7. On the basis of average figures for 1983-84, with a sizable share of about one-fifth in the total value of world commodity exports going to petroleum and gas products, it is no wonder that four of the top five (Exxon Corporation, Royal Dutch-Shell Group, Mobil Corporation, British Petroleum) and six of the top ten (Texaco, Inc., Chevron, included) largest transnational corporations, among a total roster of 600 from mining and manufacturing industries, are petro-giants, according to ranking by UNCTC based on 1985 revenue.

Overdependence on primary commodity export

8. While trends in the structure of world export trade reflect an ever diminishing slice of the trade pie being apportioned to primary commodities, there has not been any letup in the massive reliance of developing countries on primary commodities as the source of international liquidity. In terms of the share of

primary commodities in the total export basket, the scale of dependence on the export of primary commodities varies dramatically among economic regions and individual countries, according to UNCTAD figures for 1986 on the share of primary commodities (excluding fuels) in all merchandise export value by economic regions and countries.

9. Among twenty-five countries from developed market economies, only in the case of four does the share of primary commodities exceed half of total export value. In sharp contrast, excluding exporters of fuels (petroleum, gas, coal), 95 developing countries--37 of them from Africa--rely on primary commodities for more than half of their export earnings. Extreme cases of dependence on primary commodity export as the sole source--100 percent--of foreign exchange earnings include 11 African countries. The level of dependence on primary commodities in the range of 75-99 percent includes 18 African countries.

10. Primary commodities contribute between 50 and 75 percent to the total export value of 8 countries. Notable among African countries for whom the contribution of other primary commodities (excluding fuels) is less than half of total export earnings are principal oil exporters.

11. Countries whose dependence on primary commodities for export is negligible fall into three broad classes: those with neither an industrial nor a resource base, industrialized countries with abundant resource endowment, and those possessing a strong industrial base even if not blessed with generous natural resources. Japan and Djibouti, each with hardly any primary commodities in their export packages, exemplify the two extreme cases.

12. Over and above risk associated with dependence on primary commodities as a whole, the position of some African countries is further aggravated by vulnerability to putting all their eggs in one basket. A tally of about 30 commodity groups, in which the contribution of individual African countries to world export exceeded one percent in 1986, reveals extreme dependence on one primary commodity. A single primary commodity contributes from one-quarter to one-half of total export earnings of twenty countries from Africa. Although export diversification signifies much more than a linear summation of the number of commodities sold, the number of commodities, at the level of more than one of percent of world trade, exported by a country serves as a rough indicator of a modest degree of export diversification.

Transnational corporations in trade

13. Developed market economies provide the overwhelming share of the import markets for primary commodities exported from developing countries and serve as the home base of giant transnational corporations dominating world trade. Estimates run up to 90 percent for exports associated with transnational corporations from the United States and the United Kingdom. Transnational corporations based in the United States alone handle more than three-quarters of the exports and about one-half of the imports. But the dominance of transnational corporations in export trade of primary commodities from developing countries is only surpassed by their supremacy over processing and marketing.

14. Whereas the involvement of transnational corporations in export trade is generally dominant in the cases of bananas (Somalia, Cameroon), Zimbabwe (sugar, tobacco), Kenya (tea), Cote d'Ivoire (hard wood) the intensity varies among countries and commodities. With the exception of tobacco grown in Kenya to satisfy strictly demand from the cigarette manufacturing subsidiary of BAT, the selected commodities are export oriented. Prior to 1974, tobacco for cigarettes manufactured in Kenya by BAT was imported from neighboring countries. These countries also play host to cigarette manufacturing and tobacco trading affiliates of BAT, which renders them potential hostages to a closed system of intra-firm transactions susceptible to transfer pricing.

15. Without the leverage of producers' association as in Zimbabwe or some form of regulatory intervention by the Kenya government to ensure that the price paid to tobacco growers reflects a fair value, the atomized tobacco farmers of about 9000 are reduced to being price takers in the light of the monopsonistic market power of BAT Kenya Ltd.

16. The Cotton Marketing Corporation has been the sole exporter of cotton from the Sudan since the nationalization of all foreign affiliated firms hitherto dominating cotton exports from the country. In addition to acting as a regulatory and service agency for the cotton industry, the Tanzanian Cotton Authority also fills the role of a cotton selling agent on behalf of farmers. Subsidiaries of transnational corporations account for all the cotton exported from Tanzania.

17. The government of Burundi exercises exclusive control over coffee trade through the Burundi Bureau of Industrial Crops for domestic trade and Burundi Coffee Company for export. Prior to the formation of the Burundi Coffee Company in late 1970s, coffee

export from Burundi was dominated foreign by affiliated firms from Belgium. The government took full control of the Burundi Coffee Company after initial equity participation by foreign affiliated firms.

18. COBAFRUIT (Cooperative Bananiere et Fruitiere de la Cote d'Ivoire) is a marketing cooperative of banana growers with exclusive rights over banana export. About 90 percent of the bananas exported by the cooperative is supplied by large scale farmers making up the membership of OCF (Organisation Centrale Fruitiere).

19. SOMALFRUIT, a jointly-owned company by the Government of Somalia (40 percent) and Gruppo de Nadai of Italy (60 percent) is the sole exporter of bananas from the country. Bananas exported by SOMALFRUIT are obtained from company plantation and associate producers over whose activities the buyer exercises considerable influence and control designed to promote supply reliability and product quality.

20. Among the countries sampled here the market power of transnational corporations is most concentrated in Zimbabwe. Anglo-American Corporation of South Africa through a wholly-owned trading subsidiary (Sugar Sales (Pvt) Ltd.) wields monopoly power over the export of raw sugar. The market power of Anglo-American is further enhanced through vertical integration with sugar production. Tate & Lyle through a refining subsidiary (Zimbabwe Sugar Refineries) controls fully domestic and export trade of refined sugar. Although the comparison may be unfair, considering Zimbabwe's short period of existence as a sovereign state, the hegemony of transnational corporations in the sugar industry of the country contrasts sharply with those of other developing countries from whose turfs transnational corporations had progressively retreated during the last few decades.

21. The market power of transnational corporations in the tobacco industry of Zimbabwe is only surpassed by those in the sugar industry here and the tobacco industry in Kenya. The principal groups making up the tobacco industry of Zimbabwe are the Zimbabwe Tobacco Association consisting of tobacco farmers, the Tobacco Marketing Board as a government regulatory agency, and foreign affiliated firms controlling tobacco manufacturing and export. Among half a dozen foreign affiliated firms exporting tobacco from Zimbabwe, the subsidiaries of BAT and Rothmans Pall Mall account for a major share.

22. While the dominance of transnational corporations in tea production has been substantially curtailed by the rapid growth of the smallholder group organized under the Kenya Tea Development Authority, transnational corporations continue to dominate

export. In addition to supplies from their own producing subsidiaries accounting for a major share of tea produced in Kenya, producing and/or trading companies fill the roster of principal tea exporters, including notables like Brooke Bond, Lipton, James Finlay, Lyons-Tetley, Wholesale Cooperative Society, Van Rees, and Stansand.

23. The government and foreign affiliated firms participate in the export of bananas from Cameroon and hardwood from Cote d'Ivoire. About 90 percent of the bananas produced in Cameroon is exported, distributed about half and half between the Cameroon Development Corporation and foreign affiliated companies. Subsidiaries of foreign companies engaged in banana export from Cameroon include those with integrated operations in plantation, buying agents, integrated shippers and sales brokers. The joint venture between Cameroon Development Corporation and Delmonte Tropical Fruit Co. for the development of additional 3000 hectares is expected to export 45000 tons annually to preferential markets of France and West Europe.

24. Logging, primary and secondary processing, and export trade make up the principal activities of the wood industry of Cote d'Ivoire. Among more than 700 business entities active in the sector, 61 foreign affiliated firms account for a dominant share of the activities with most of them acting as buying agents of parent companies based in France, U.K. and Federal Republic of Germany. As part of government policy designed to promote new species of trees, the government of Cote d'Ivoire is directly engaged in wood export through bilateral agreements with countries where foreign subsidiaries exporting wood are not represented. A third-country clause prohibits foreign subsidiaries hosted by Cote d'Ivoire from re-exporting wood originating in Cote d'Ivoire.

Local Processing

25. Through its refining and marketing subsidiaries, Sugar Refineries and Sugar Distributors, Tate & Lyle exercises monopoly power over the local market for refined sugar. Although the target market for refined sugar is the local consumer, a portion of refined sugar is exported to some neighboring countries like Botswana through contractual arrangements.

26. Earlier to 1974, Brooke Bond exercised monopoly power over tea manufacturing and distribution on the local market through the 'pool arrangement' subscribed to by all tea factories. The Kenya Tea Development Authority engineered the break up of the arrangement to wrest control of the local market from Brook Bond

and the formation of Kenya Tea Packers in its place. Kenya Tea Packers has exclusive rights for the processing and marketing of tea on the local market. All tea factories are required by law to deliver a fixed percent of bulk tea to Kenya Packers to satisfy the domestic market.

27. The forced withdrawal of Brooke Bond from tea manufacturing for the local market in Kenya contrasts sharply with BAT monopoly over cigarette manufacturing for domestic consumption. BAT entered the East African market as the sole cigarette importer at the turn of the century, and in mid-1950s embarked upon local processing by acquiring a competing firm that threatened its monopoly position with import substituting cigarette manufacturing. In Zimbabwe BAT employed a similar strategy of entry as a trader and subsequent integration with cigarette manufacturing. In Zimbabwe the manufacture of cigarettes for the local market is shared, about evenly, by a duopoly of BAT and Rothmans. About three percent of the tobacco produced in Zimbabwe is manufactured into cigarettes for domestic consumption.

28. Textile is processed in the Sudan and Tanzania principally for the local market by private and public local firms with some participation from foreign affiliated companies. Among nineteen textile factories known to exist in the Sudan, seven are state-owned, two are foreign affiliated, and the rest private outfits. The takeover of Sudanese-American Textile Mill by Gulf International, a transnational corporations with a home base in Kuwait, from an American firm was precipitated by problems of insolvency facing the factory at the time. Jumeira, a wholly-owned company by investors from Dubai, is engaged in the production of yarn for export to Europe. The involvement of transnational corporations in textile processing also assumes the form of non-equity participation. Companies from the United Kingdom (Tootal), Japan (Gosho Kematsu), and Pakistan run some of the textile factories through management contracts.

29. Although the Sudan has some potentials to export cotton-based textiles goods, the country is a net importer. Some factors conducive to the manufacture of textile for export include abundant supply of cotton, redistribution of textile processing capacity from developed market economies to developing countries in recent years--notably, the Far East--and marketing outlets provided by transnational department stores and established brand names through arrangement of contractual supply. But the prospects are dimmed by protectionist tendencies against textile imports from developing countries, the emergence of man-made fibers as close substitutes for cotton, and the capacity of the Sudan to be a reliable source of supply at competitive price on the world market, given the perennial problem of intermittency and unreliability of basic utilities like electricity and water.

30. The four textile mills in Tanzania consist of the Friendship Textile Mill, built with Chinese assistance in mid-1960s, one private local plant, and two foreign affiliated firms. The government reportedly acquired 30-56 percent shares in all private textile mills. About 30 percent of the cotton produced in Tanzania is processed by the four mills.

Summary and conclusions

31. The case studies confirm the continued dominance of transnational corporations in the export trade of primary agricultural commodities from African countries. The involvement of some countries in export activities hardly transcends marginal intermediation and a peripheral regulatory role to influence appreciably the structure of distribution of gains between trading foreign subsidiaries and commodity producers.

32. The distribution of relative share among commodities entering international trade is comparable to a zero-sum game; the loss of one commodity group means the gain of another commodity group. In the shifting structure of international trade among export commodities, the trend points to a broad group of manufactured goods, machinery and equipment gaining at the expense of primary commodities.

33. The distribution of relative share among commodities based on export value, while serving as a rough indicator of general trends, tends to understate grossly the level of magnitude in terms of final consumer price. Although the transnational corporation is more aptly the base than the superstructure in international trade arrangements, when the weight of these pervasive concerns is superimposed on the redistribution of the structure of world export trade, the scenario yields corroborating evidence about generally declining trends in the structure of gains between transnational corporations and host countries. After final consumer price is added to the scenario, as the numeraire in the measurement of distribution of gains, the picture that emerges on the distribution of gains between transnational corporations and developing countries exporting primary commodities is even more unfavourable than what is apparent in changes in the structure of global export trade.

34. The last quarter of this century has been a period of events of <u>mega</u> proportion, notably, <u>mega</u> mergers. The net result of the merger factor for bargaining position between transnational corporations and host developing countries is the weak getting

weaker and the strong getting stronger. The scenario is straight forward. Industrialized market economies are the home of the largest transnational corporations and the arena for the merger game among these gladiators. The general effect of mergers--whether horizontal, vertical, or conglomerate--is enhanced market power. With regard to transnational corporations active in primary commodity trade, the level of concentration increases as participants in the market are swallowed up by mergers. If past trends are any guide to the future, commodity exporting countries from Africa are well advised to brace themselves for facing a more towering protagonist across the bargaining table beyond 1992 and the end of the millennium.