A Model Of Managed Primary Commodities: Coffee And Colombia

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A MODEL OF MANAGED PRIMARY COMMODITIES:
COFFEE AND COLOMBIA

A THESIS SUBMITTED TO THE CARROLL COLLEGE DEPARTMENT
OF POLITICAL SCIENCE IN CANDIDACY FOR GRADUATION WITH
HONORS

BY

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INTRODUCTION

Colombia is a country of uncertainty. Yet it is also a nation of promise, that could, under the right circumstances, overcome its current economic and domestic troubles and resume its position in the upper echelon of developing nations. Many developing countries seek to develop—that is, industrialize—with revenues provided by exports. Colombia’s source of external income is mainly through coffee sales on the international market.

Though coffee has provided much needed revenues over the past 80 years, the issue of this dependence on a single export has been raised many times since the 1960s, and will continue to be raised until coffee’s influence is significantly lessened by other exports. Despite this questioning and the subsequent development plans put into place to curb this dependence through diversification, coffee has remained the primary export commodity of Colombia. This is because Colombia has only sought to reduce coffee’s influence. Coffee’s potency is offset by increasing the efficiency and productivity of the other exporting sectors in its economy. At the same time, Colombia seeks to reap the rewards of higher coffee yields that resulted from better growing techniques.

The study of coffee and its relationship to the Colombian economy is a complex and daunting task. From a distance, the problems seem to be concrete and the solutions easily enacted. But when one goes beneath the surface problems, it is obvious that coffee and Colombia are inexorably intertwined in a fight to survive. The untangling of coffee from its position as the lifeblood of Colombia is nearly impossible and would be extremely difficult and painful to implement. Colombia has no other options but to try to build an industrial complex while clinging to coffee as a major export commodity. The
addiction to coffee is so complete that the Colombians have no choice but to manage their precious crop.

Expansive as it may seem, the study of coffee’s effects on the economy over the last three decades provides an interesting look into the aftershocks of a boom and bust cycle that occasionally occurs on the international scene with virtually any primary commodity. It also provides clues into how Colombia can better prepare itself for boom and bust cycles that will come in the future. If Colombians can harness these cycles to their benefit, or at least lessen the disastrous effects of such a cycle, the Colombian example could provide a model for other nations faced with the same problems.

The Colombian government—through the privately held and run Federacion Naticional de Cafeteros (The National Federation of Coffee Growers) otherwise known as FEDECAFE—seeks to control and minimize the effects of coffee prices on the Colombian farmers, while further developing the crop to maximize yields and quality. This form of management, if effectively pursued, might partially negate the current development theories that demand the eschewing of a dependency on primary commodities in favor of a diverse industrial complex that provides the majority of the export revenues and employment throughout the nation. An industrial complex that is able to manufacture enough goods for internal consumption as well as exports should be pursued by any developing nation. The path to reach this point, however, is contested and should remain so. Each nation must find its own path to development. A single model may ignore the intricacies of a particular national economy, specifically what its strengths and weaknesses are in relation to available resources and previous sectors of development, namely agriculture.
This study attempts to track the effects of coffee on the Colombian economy, and by doing so, it also hopes to analyze the Colombian efforts to lessen the effects of coffee on the national economy. By looking at the efforts by the Colombian government and other groups in Colombia, the reader then can see the beginnings of the serious coffee management in Colombia. The Colombians have always attempted to manage coffee, yet in the 1970s, their efforts to use coffee’s revenues to develop largely failed due to an unexpected fluctuation of prices. The coffee boom lasted from 1977 to 1979, and the subsequent readjustment of prices, known as the bust in such a cycle, left the Colombian economy ill prepared to deal with the turbulent 1980s.

The Colombian case provides development economists and theorists the chance to study a managed export commodity in a developing nation. The goal of this study is not to provide a cure-all for economies that are dependent on primary commodities, but instead to highlight one nation’s solution to its dependence on a primary economy. It has become more important to research this phenomenon, in that it can provide information on how to soften the effects of international trade without restricting the free flow of goods in a way that is detrimental to consumer and producer.

Such an arrangement would be to the advantage of the developing nations of the world and to the consumers as well. By increasing competition and quality, a nation’s economy would gradually become more efficient, and the nation could then funnel more resources into its other industries. The increased investment and would serve to diversify the economies of the developing world, by providing them with a more stable economic base and the wherewithal to further industrialize and develop. This situation would, in turn, increase the general welfare of the global economy.
As humanity enters the 21st century, the world's economies have become more interconnected through globalization. This change allows the consumers of the Global North (developed nations) to purchase products from foreign markets with such ease that it has been taken for granted that our morning breakfast may have foodstuffs from around the globe: coffee from Colombia, jelly from Argentina, fruits from California, and so on. While the Global North has become a consumer-oriented market, the Global South (less developed nations) remains burdened with an almost neo-colonial relationship with the developed nations' economies.¹ The Global North receives 77% of the Global South's raw resources, which the North develops into finished or "value-added goods."² Often the raw materials are bought at a fraction of the finished goods' price, resulting in the developed nations profiting, and the less developed nations lingering behind at the mercy of the Global North's markets.

Commodities are defined as "an economic good; esp.: a product of agriculture, mining, or sometimes manufacture as distinguished from services."³ These raw materials, in the case of the Global South (i.e., less developed nations, otherwise known as LDCs), are often processed and/or refined in a facility away from the country or area of origin. Petroleum, timber, iron, precious metals, coffee, and cocoa are some of the more common commodities in the global market. The market values of these products are often determined not by the country from which they were derived, but instead by the
market forces that are at work in the economies where the raw materials are processed and sold.

In an effort to equalize, or at least relieve part of, this disparity, the Global South tries to develop. Development is essential for any economy in order to meet the needs and wants of the state and population—the society. In developed economies the structure is set up for such fluctuations, and industries often have access to enough capital to adjust according to market shifts and consumer wants. Unfortunately, in underdeveloped economies, the economic systems are dependent on the developed economies for income through export commodities. In the case of the newly industrialized countries (NICs, such as the Asian Tigers), the still maturing economy can export manufactured goods as well as raw materials, which makes for a more stable economy that is not dependent on one single export. For nations without a strong industrial sector, if such a sector is even present, the dependency on surrounding markets for external revenue becomes more of a gamble, in that their exports are often primary export commodities subject to the whim of the consumers of the developed nations.4

Speculation often fuels the pricing for these goods, therefore making for an inherently unstable market. Coffee prices go up or down depending on the production of Brazil or Colombia, the two largest producers of coffee. If Colombia or Brazil has a bad year because of the weather, coffee traders buy as much coffee as possible, thereby starting a coffee boom, such as the boom of 1977. The reversal of the effect comes when the traders believe there will be a large harvest; at this point the traders will buy low, regardless of the actual supply. Along with commodity speculation, there are two other
distinct problems that come with an economic dependence on primary commodity goods: "Dutch disease economics," and the "adding-up problem."  

"Dutch disease economics" refers to a situation in which a nation, in the midst of an economic boom fueled by a commodity, allows the development of other industries and areas of growth to decline, thereby creating a greater disparity in the economy. The term comes from a phenomenon that occurred in the Netherlands in the 1960s with the discoveries of natural gas reserves in Dutch territory. Kamas states that with the rise of the hydrocarbon sector in the Netherlands, the manufacturing industries suffered abroad because of the real appreciation of the guilder, the currency of the Netherlands, against the other currencies of the world, primarily the US dollar. Though this situation is most commonly found in oil-producing nations, Kamas states that this problem can also occur in the agricultural sector, particularly in a less developed nation where agriculture is its primary source of income. The problem arises when the export boom brings in foreign reserves at a rate that causes the nation's currency to appreciate in value, which in turn, makes most of its other exports to expensive too compete in the international market.

This problem is often combated by constant currency depreciation, which Colombia pursued vigilantly until 1975. Other solutions include a reduction in output of the product if it is a mineral. However, if it is an agricultural product, storage or a reduction in crops becomes problematic. In 1984, the Colombian government estimated that it would cost it around 40 million dollars to store their excess coffee. By pursuing some form of policy change such as currency depreciation, or a reduction of product output, the nation can provide relief for its other exporting industries as these sectors try to become more competitive in the global market. If a nation decides not to enact
changes and allows the suffering export sectors to continue with their downfall, serious consequences may lie in the future, such as when the prosperity brought on by the single export commodity ends. When the boom ends, the nation is left with declining industries that cannot compete efficiently in the global marketplace, leaving the nation worse off than before the export boom.

Another consequence of commodity dependence is the "adding-up problem." This occurs when the market is saturated and the supply continues to increase with the result that the price drops significantly.\textsuperscript{12} Often this problem arises when other nations enter into the inelastic market of the commodity in question, or when the harvest is particularly good in the countries that were already established in the market—sometimes both. The inelasticity of the market is directly related to demand and not to supply; therefore, demand is constant, and the price will drop with the increase in supply.\textsuperscript{13} The relative inability of the demand curve to move limits the variability of the price and eliminates the ability of the producer to significantly control prices without withholding the product.\textsuperscript{14}

This problem is not isolated to agricultural products; it may happen in any market where supply can exceed demand by a large margin. For example, the oil industry under the direction of OPEC (Organization of Petroleum Exporting Countries) can control the price of oil by withholding oil from the international market, and by doing so can even cause severe oil shortages that drives the oil prices far higher than what would normally be paid. This can be seen in the rise of current oil prices that as of March 7, 2000, reached US$34.14 a barrel.\textsuperscript{15}
Cutting production as OPEC has done in the past two months severely inflates the world market price for oil by causing the world stockpiles to dwindle, making it possible for inflation rates to increase dramatically. It also encourages nations that are not part of OPEC, such as the United States and Trinidad and Tobago, to increase production to take advantage of the higher prices, and to offset the oil prices within their own nations.\textsuperscript{16}

The reversal of cartel control was seen on December 21, 1998, where the price of oil dropped to US$9.55 a barrel.\textsuperscript{17} The market was flooded with oil, and to recoup losses the nations continued to produce more oil, which further drove the prices downward, causing massive shortages in export revenues.\textsuperscript{18} But the adding up problem, and “Dutch disease economics,” can both be avoided by nations dependent on primary commodities by managing the commodity and the national economy more effectively.\textsuperscript{19}

Lack of development often hinges not on desire, but instead on the country’s ability to accumulate the capital and infrastructure needed to develop. To achieve the necessary capital goods and infrastructure essential for development, and then to further orchestrate the investment and regulation of the industries, the government of the nation in question must adopt a development plan of some sort. There are many such plans, ranging from state-led growth associated with socialism to export-led growth with an emphasis on free trade. There are three general approaches to development: state-led growth, import-substitution industrialization (ISI), and export-led growth.

These forms of development and other development theories have often described reliance on agriculture as “irresponsible.”\textsuperscript{20} Schiff and Valdes, in their paper “Agriculture and the Macroeconomy,” state that this comes from the perceived idea that agricultural products and other primary commodities have inelastic demand.\textsuperscript{21} Because
of the inelasticity and the slow rate of change, the country dependent on these commodities subjects itself to a boom and bust cycle. In order to avoid this cycle, development theory often states that the country, in response to the cycle, naturally industrializes and therefore moves away from their dependency on a primary commodity.

Instead, Schiff and Thomas argue that nations should develop according to their commodities. By making production and transportation more efficient, the commodity would be more profitable. With the increase in profits, nations could avoid an abrupt and often painful transition and instead enact a gradual development plan. Their contention is that commodities, especially agriculture in the 1980s, suffered such severe price fluctuations that nations instead of focusing on how to beat the prices and revolutionize their respective established exports rejected agriculture as a valid form of development. As a result of a readjustment of coffee prices during the 1980s after an extended boom, Colombia adopted many of the neo-liberal policies that were in vogue during the 1980s. This attempt to revolutionize its economy accelerated the drive to develop, a process that had been slowly changing the Colombian economy since the initial development plans were put into effect decades before.
CHAPTER 2
THE PENDULUM OF DEPENDENCY:
COFFEE AND COLOMBIA

The Emergence of Coffee in the Colombia Economy

To understand the situation that led up to the dominance of coffee and the later battle to diversify the economy, one must look at certain developments that began to take form in the early 1900s. David Bushnell, in his book, Colombia: A Nation in Spite of Itself, states that when General Rafael Reyes took office in 1904, the economy of Colombia was a mess. Furthermore, he writes that in his effort to modernize Colombia, Reyes took a number of significant steps. First, he reestablished foreign credit for the first time “since long before the War of a Thousand Days.” Second, he strove to improve the transportation infrastructure. Third, he set forth tariffs, subsidies, and tax breaks targeted to protect certain infant industries judged vital to Colombian development. And fourth, and perhaps most importantly, he took steps to repair relations with the United States after the Panama incident during the previous period of civil war.¹

Because of the actions of President Reyes, Colombia was able to begin to build its infrastructure, an important step in the development of any economy. Infrastructure makes it easier for exports—such as coffee—to leave their points of origin, from the periphery of Colombia, to the ports, where the exports can be shipped abroad. The better the infrastructure, the more efficient the transportation becomes, which makes the transportation less expensive. The cheaper the process becomes, the larger the profits are to the farmers and nation in general. The investment by the Colombian government was an important first step toward a developed economy.
With improved relations with the United States and an economy that was beginning to fully realize the importance of coffee and exports in general, Colombia began to look for investors who would loan it money to make more progress. During the economic boom of the 1920s, Wall Street investors were more than willing to loan out large amounts of money, and Colombia decided to take advantage of the situation. With these loans President Pedro Nel Osprina began to increase the reach of the Colombian railroad system. By 1929, the track length was 2,434 km, a marked increase over 1922, when the track measured only 1,481 km. But infrastructure was not the sole focus of President Osprina. Under the advice of the Kemmner Mission of US fiscal experts, he signed into law the Banco de la Republica—the Colombian central bank.

The Colombian development of the physical and fiscal infrastructure was beginning to pay off. Because of the improvement in infrastructure, the exportation of coffee began to increase. In 1913, Colombia exported around 1 million 60-kilo bags of coffee per annum, and in 1930, Colombia shipped out about 3 million bags. Coffee was not the only export during this period. According to Bushnell, oil and bananas, with the arrival of Tropical Oil Company (a subsidiary of Standard Oil of New Jersey) and the United Fruit Company, were also significant factors in the development of the Colombian economy. However, because a number of violent strikes in the late 1920s, and problems relating directly to Colombian laws pertaining to subterranean mineral rights, and a change of administration in the 1930s, bananas and oil would not remain under the command of foreign investors for long. The ejection of United Fruit and Tropical Oil’s departure, though justifiable under the circumstances, slowed the development of oil and bananas as viable exports that could have been more influential in the development of
Colombia. Instead of having a diversified economy, Colombia would then develop an
economy that relied primarily on coffee.

**FEDECAFE: The other government in Colombia**

To manage its main export, the Colombian government put into place a number of
economic policies, signed onto the International Coffee Organization in 1940, and placed
considerable power in the hands of FEDECAFE.\(^8\) Otherwise known as the Federacion
Nacional de Cafeteros, FEDECAFE is a private coalition of the majority of coffee
growers in Colombia, and its principal purpose is easing the fluctuation of Colombian
coffee prices.\(^9\)

It does this primarily through the management of the National Coffee Fund
(NCF). The NCF buys the coffee from the farmer, collects the coffee export taxes for the
Colombian government, and controls the amount of Colombian coffee allowed upon the
international market.\(^10\) FEDECAFE sums up its mission with this quote: “The Price
Guarantee: A buffer against a volatile and unpredictable international coffee market. The
farmers are guaranteed an adequate, stable income.”\(^11\) Besides stabilizing the coffee
prices for the Colombian coffee farmer, FEDECAFE also participates actively in the
coffee growing regions by providing loans to farmers, promoting rural electrification,
educating the farmers, and sponsoring health care.\(^12\)

The magnitude of FEDECAFE’s reach is rather large. Vinrod Thomas states in
*the Colombian Experience*, that in 1985 just under 1 million hectares of 4.5 million
cultivated hectares were used for coffee production.\(^13\) Each farm is around 2 hectares,
and FEDECAFE estimates there are approximately 500,000 coffee farmers in Colombia.
In 1985, just as FEDECAFE was beginning to restrict the growth of the coffee sector through lessening loans for new cultivation and replanting, Colombia exported, under the jurisdiction of the ICO quotas, 9.96 million sixty kilogram bags, and held 12.17 million bags in storage. In 1985, the 9.96 million bags of coffee brought in around 1.6 billion dollars, and accounted for 4.7% of the annual GDP.

The importance of FEDECAFE to Colombia cannot be overstated. It is responsible for the creation of the exclusive market for Colombian coffee. For example, Juan Valdez™ often is associated with Colombian coffee. He represents the Colombian coffee farmer to the rest of the world. But Juan Valdez is not the advertising gimmick of Folgers or Maxwell House; instead, the image of Juan Valdez is registered to FEDECAFE in an effort to identify Colombian coffee and sell more of it abroad. This effort has rewarded Colombia well. Colombian coffee is known (or so FEDECAFE claims) as the premier coffee of the world, and receives the highest bids on the international coffee market.

Colombia has invested heavily in coffee production and has created a specialized market for itself with creative advertising and strenuous restrictions on what can be called "Colombian coffee." However, Colombia realized in the 1970s that coffee could not be the sole source of Colombian exports, and began to seriously attempt to diversify its economy. This process changed the shape of the Colombian economy, and shifted the focus of Colombian economic investment into sectors other than coffee. The ordeal was long and arduous, and seemed to pay off by the 1990s, but with the advent of a recession in the late 1990s, questions again arise about the effectiveness of the Colombian development and if it really did profit from the shift away from coffee.
Decreasing Dependence on Coffee through Increasing Temporary Dependence. A Macroeconomic Overview from 1970 to 1997

The 1970s: Years of Hope

In 1970 coffee export revenues accounted for 55% of total Colombian exports and around 6.5% of total GDP. These figures reflect the Colombian reliance on coffee that continued from the 1930s. Oil was the only other traditional export that came even close, but it only accounted for 13.4% of traditional exports. As shown in figure 2, non-traditional exports in the 1970s progressed impressively after their initial takeoff in the beginning of the decade, a trend that would continue into the 1990s (fig. 1). This change resulted from Colombia’s shift in developmental policy that began in the 1960s. But for any economy, especially one based on agriculture, this change can only come slowly.

Even with the change in policy during the 1960s, non-traditional products accounted for only 2.8% of total GDP in 1970.

To continue the progress of the previous presidents, who had toiled to bring Colombia up to the average annual GDP growth rate of 5.2% during the 1960s, President Misael Pastrana advocated a plan by the renowned economist Professor Lauren Currie. Currie saw Colombia’s problems from the point of view that underconsumption was the cause of underdevelopment. To combat this, Currie, and later Pastrana, launched a four-pronged attack on Colombian underdevelopment:

1. concentrate investment in urban development, especially housing, financed through new savings out of additional income;
2. increase reliance on exports in order to obtain the imports necessary to break bottlenecks in the path of growth;
Figure 1: Total Exports; Traditional Exports; Coffee Revenues; and Non-Traditional Exports from 1970 to 1997

Source: DANE and Banco de la Republica
Figure 2: Total Exports; Traditional Exports; Coffee Revenues; and Non-Traditional Exports from 1970-1979

Source: DANE and Banco de la Republica
(3) increase agricultural productivity and accelerate the process of land
distribution in order to raise incomes of the rural population and make
exportable agricultural products more competitive in the international
markets;

(4) place more reliance on progressive taxation and the provision of social
services to lessen inequalities in income, consumption, and opportunity.23

This program was a direct response to the lessening impact, and in fact worsening
conditions, caused in part by the government's creation of an earlier development plan
that was based on import substitution industrialization (ISI). The previous program,
begun in the 1950s, had finally run its course after initially spurring significant growth
within Colombia.24 As Manuel Agosin points out in his paper, "Development Patterns
and Labour Absorption in Colombian Manufacturing," ISI programs have limited, if any,
benefits in a market the size of Colombia. And unless changes are made as time goes on,
the benefits will significantly lessen.25 Even with the increased emphasis on exportable
goods in Currie's plan, the rise of coffee prices in the 1970s occurred as the exportation
of oil dropped.26 This trend would continue until ultimately Colombia ceased to export
petroleum or its derivatives in 1975, a situation that would carry on until 1985.27

Yet the rise of coffee prices played perfectly into Currie and Pastrana's plan. The
use of land reform allowed the small plot farmers to increase their production. Land
reform also created more farmers, which reduced unemployment.28 The plan, though it
spelled the demise of Colombian petroleum for a decade, was well on its way to
succeeding, albeit through an indirect route. By using coffee export revenues for the bulk
of the additional capital needed for development Colombia was temporarily increasing its dependence on coffee in order to diversify its national economy in the long run. For this to work, the coffee bean would have to sell impressively over the decade, which it did. Coffee sold too well; by 1977, it accounted for 9.6% of GDP as a result of the coffee boom. This boom, which started in 1975 with a deadly frost in Brazil, would send the whole Colombian economy into shock. The rapid influx of foreign reserves served to appreciate the Colombian peso, which was detrimental to the other exporting industries, with the exception to the flower industry.

The reliance on coffee was counteracted, however, by the exploration of other agricultural products for which there was a demand in the international arena. The biggest success has been the cut flower business. Based around Bogotá, the fertile soil and highly developed airport have made the exportation and development of this industry a much easier task. The resulting rise in flower exports could be seen in the late 1970s (fig. 2), where the non-traditional exports began to climb. Even with this additional export, the Colombian economy was still inexorably linked to the coffee industry and its success or demise. This can be seen in Figure 2 with total exports and traditional exports still mirroring coffee’s uneven export revenues.

While the prosperity, because of the size of the coffee industry, was beneficial too much of the Colombian population, the specter of inflation lurked beneath the increase in foreign funds. The increase of foreign funds and improper responses to such a large influx resulted in an inflationary period in Colombia and such an appreciation of the real exchange rate that the export of other goods besides flowers and coffee became more difficult. The inflation was further aggravated when 1978 coffee prices entered into a
virtual bonanza (fig. 3) comparable to Mexico and Venezuela's oil boom of roughly the same period. Because of the coffee boom, the GDP hit an all time high of 8.8% annual growth rate, while the rest of Latin America only posted half this average.

**The 1980s: The Dawn of Neoliberalism and the Shift to Diversification**

With the advent of the 1980s Latin America slipped into a depression that had averages of -2.5% annual growths. Colombia's growth also fell considerably, but the economy kept expanding, albeit at a much slower pace than in the 1970s. In 1981 Colombia posted an average growth rate of 1.9% (this coming out of half a decade of phenomenal growth and two previous decades that hovered around an average of 4 and 5% growth). To the chagrin of Latin American nations and their lenders, the infamous Latin American Debt Crisis was just about to make itself known.

With the resumption of normal coffee prices, the economy was in a slump (fig. 3). Coffee's success as an export and a dominant economic force in Colombia had always relied on the fact that it had two distinct benefits. A large proportion of the population benefited from the trade of coffee and the government benefited from the income produced from the coffee trade and taxes incurred from that trade. With coffee failing in its traditional role of keeping the economy afloat, the government decided to follow through on its diversification schemes to see what would work.

The governments in the mid to late 1980s instituted policies touted by the newly emergent neo-liberals. Subsidies were slashed, the peso was for the first time since 1975 significantly devalued to prevent an eminent currency crisis, and debt was increased significantly as the recession wore on. At first, the debt started with covering the budget deficit, but by the late 1980s debt was being accumulated to service previous debt
Figure 3: Total Exports; Traditional Exports; Coffee Revenues; and Non-Traditional Exports from 1980-1989

Source: DANE and Banco de la Republica
agreements. At the same time, the government initiated a pragmatic lowering of trade barriers in the hope of attracting more investment and perhaps a response from other nations to lower their barriers as well. Schloss and Thomas state that the Colombian government added 1,135 items to the free license agreement, as well as reducing the number of prohibited items from 828 to 69. Colombia also instituted tariff reform to encourage “export-oriented activities” and the continuation of infrastructure development. According to Schloss and Thomas, the Colombian government, with these policy changes, hoped to initiate a rapid increase in output accompanied by a shift of industrial production to exports and import-competing goods, as well as the development and support of “quick-yielding infrastructure investments” that more extensively utilized present facilities.

In 1987 the GNP increased 5.3%, marking the beginning of Colombia’s accelerated recovery that occurred under the new government economic policies. The growth was not isolated to any one sector of the economy. The overall industrial output would increase by 7%; with decreased subsidies, agriculture would grow 2.2%; and another primary commodity sector, mining, would see a growth rate of 27%. The Colombian trade surplus with the United States increased by a margin of almost 11 to 1 and per-capita income also increased to US$ 1,600. The new program initiated by Colombia significantly lessened coffee’s influence, which Colombia by the early 1980s discovered was not as effective as it had hoped (fig. 3). The biggest break with the past came from the noticeable lack of development and promotion of growth in the traditional agricultural sector. Still, Colombia had not broken away from coffee, and continued as a major coffee power. The Colombians were the “world’s largest coffee exporter and
second largest producer after Brazil.49 They also kept expanding the non-traditional agricultural sector; in a span of 17 years Colombia became the second largest flower exporter and continued to expand fruit and vegetable production.50

The 1990s: Years of Disappointment

Colombia in the beginning of the 1990s was something of a success story (fig. 4). As noted previously, the Colombians continued their economic growth at a respectable annual rate of around 4%, and with the advent of the “apertura” (openness) program under President Caesar Gaviria, economic liberalization continued.51 Through a two-stage plan, this program sought to continue the reduction in tariffs that began in the 1980s, start the deregulation of the financial sector, and begin to privatize national industries.52 The move to diversify and move away from coffee continued under this plan.53

The 1990s showed significant progress in the arena of decreasing coffee dependency. As seen in 1995, coffee revenues declined, yet total exports continued to significantly climb on the strength of other exporting industries in the traditional and non-traditional sector (fig. 4). This incident is a reversal of the past trend in the Colombian economy and export sector. When coffee declined in the past, the total exports, especially traditional exports, mirrored the movement in coffee, or showed stagnating growth (fig. 1). With the exception of 1995, traditional exports still provided the majority of the export revenues, but coffee no longer retained the influence it had previously held. The power of coffee can still be seen in the movement of the traditional exports, which mirrored coffee revenues, but unlike the graph of the 1970s (fig. 2), there
Figure 4: Total Exports; Traditional Exports; Coffee Revenues; and Non-Traditional Exports from 1990 to 1997

Source: DANE and Banco de la Republica
is a much larger buffer between the two. This is a direct result of the countermeasures taken in the 1980s and the liberalization that continued into the 1990s.

The successful program of liberalization and diversification faltered after the exit of President Gaviria and as President Ernesto Sampras came into power. Though he did not scrap the plan, he did not show the enthusiasm that his predecessors did for the continued economic liberalization, and instead modified the plan to have a social safety net for the indigent population in Colombia. Sampras introduced “Salto Social” in 1994. This program could be compared to a revised New Deal Program for the poor. It included increased infrastructure projects in the areas of “health, education, and housing,” which were designed to spur job growth and increased public services at the same time. Sampras grew impatient with the plan and stopped actively supporting it in 1997 after it failed to reach the goal of 6% GDP growth in 1996.

Nineteen ninety-six marked the beginning of the current economic crisis in Colombia. This current recession is the worst since the 1930s, and has driven Colombia to the brink of economic and political chaos. After surviving the inflationary 1970s and the turbulent 1980s, Colombia has finally succumbed to the spending of her last few presidents. In an effort to “prime the pump” in what was already a steadily growing economy, Colombian presidents “borrowed to spend.” This policy created inflation, which was then combated by increased interest rates. The increased interest rates slowed down the economy to a point where the projected annual GDP growth for 1999 is projected to between 0 and 2%. Even though the Colombian economy is collapsing the coffee sector has continued to do well. However, coffee’s position is not as strong as it
once was, a result of a broadened and diversified economy, it can no longer support the
Colombian economy as had in the past.

The inactions of the Colombian government, such as allowing the oil industry to
languish for a decade, influenced the Colombian economy, perhaps more so than those
that were taken. Because of the options not taken, coffee remained main pillar of
development far too long, allowing the sectors that could have offset coffee’s influence to
stagnate. Yet Colombia survived, and upon the entrance to the 1990s it looked to be on
the road to industrialization.

The quick fix attitude of the Colombian government provided initial successes,
but as these programs began to conflict in focus and purpose, the Colombian economy’s
position became precarious. Granted, the task to reign in coffee’s influence and
encourage other industries without hurting the coffee industry, is a difficult one to
undertake. Such an effort cannot be fully explained by economic trend analysis, it must
be balanced with an summary of options, in other words a look at the roads taken and
those ignored.
CHAPTER 3

THE ROADS TAKEN AND THOSE THAT WERE IGNORED:
A SUMMARY OF THE OPTIONS OF COLOMBIA

The First Steps

In the 1970s, Colombia embarked on the bold new economic plan of Professor Lauren Currie. The basic plan was to use export revenues to spur growth of industries inside the country, which would increase consumption, and with increased consumption allow for greater amounts of capital with which to diversify. Though this type of plan works with a stagnating economy or an economy that is beginning to slow down, when the economy is growing at an increasing rate, the government must consider the consequences: inflation and currency appreciation, both of which would spell the end to prosperous economy.

However, Professor Currie was correct in one sense; the Colombian economy did need a new direction, specifically, a move toward a broader based economy, with less dependence on coffee. But the economy was already moving at an acceptable growth rate of 4%, so to “heat up” the economy would be risking a jump in inflation, a dilemma that currently plagues the United States. The problem of overheating is exactly what the Colombian government faced in the late 1970s. In 1977, because of a harsh frost in Brazil in 1975 (which resulted in a coffee shortage), coffee prices hit their post-World War II peak, a move that resulted in coffee revenues accounting for 9.6% of GDP, whereas two years earlier coffee only accounted for around 5% of GDP.¹ That increase of roughly 4.6% changed the situation drastically in Colombia.

Currie’s plan advocated the usage of coffee revenues and other export revenues (the other main export was petroleum), but he did not foresee the possibility of such a
large jump in revenues. Because of the emphasis on export revenues, of which coffee provided the clear majority (fig. 2), the coffee boom had a significant effect on the Colombian economy. The accumulation of vast amounts of foreign reserves that resulted from the coffee sales made it possible for the “Dutch disease economics” phenomenon to occur.

As “Dutch disease economics” settled upon Colombia, exports other than of cut flowers and coffee suffered, namely because they were not specialized industries that could compete with an appreciated currency. The currency appreciation laid waste to the petroleum industry, and stunted the growth of other industries such as textiles, which had previously done well because of Colombia’s proximity to the United States. This situation harmed the economic conditions in Colombia to such a point that when the boom became a “bust” in the early 1980s, the economy of Colombia was ill prepared to face other competing industries, which further contributed to the lower growth rates. The bust, being merely a readjustment of coffee prices to pre-1975 levels, should not have had such an extensive effect on the Colombian economy, as will be shown later.

To combat the stress on the economy brought on by the economic boom, the Colombian government should have depreciated the peso and perhaps even limited the amount of coffee leaving the nation. Devaluing the peso would have limited the damage to the other sectors and perhaps even allowed the Colombian manufacturers to compete more effectively against other nations’ industrial complexes. Significant depreciation of the peso would not occur from 1975 to 1985, and the only reason for the monetary devaluation would be an imminent currency crisis. Quite possibly the best thing Colombia could have done would have been to pay down outstanding debts. This
effectively "destroys" excess monies, and therefore would have limited the potency of the boom by ridding the Colombian government of excess foreign reserves, which at the time were appreciating the value of the Colombian peso. This would have had the added benefit of paying down the debt of Colombia, which for any nation is an important thing to accomplish. To battle the ensuing inflation, the government should have raised interest rates in an effort to discourage further discharges of currency into the economy through private, domestic loans. Because inflation results when there is too much money trying to purchase not enough goods, raising interest rates cuts down on the investment in an economy. The curtailed investment results in a decreased money supply, which then lets the economy cool down. In short, if the Colombian government had practiced more austere fiscal policy, the economy would have been in better shape to deal with the 1980s.

The Hercksher-Ohlim Model states that the consumer market dictates the prices by which a primary commodity is purchased on the international market. The presence of the International Coffee Organization and FEDECAFE positively change this situation by controlling the market. But during the late 1970s, neither organization seems to be able to control the boom caused by the Brazilian frost. If the two organizations had been able to control the situation, Colombia's problems would not have been so severe during the boom, and the readjustment would have been more acceptable. This point is important when dealing with the next decade. Three important factors came into play in the 1980s: Brazil was able to reenter the coffee market, thereby dropping coffee prices to pre-1975 levels; the Latin American Debt Crisis began; and, finally, a recession was beginning to crawl into markets across the globe.
The drop of coffee prices should not have affected Colombia in such a negative fashion, but because of the weakness of the other exporting sectors resulting from the artificially high peso, the presence of lower coffee prices produced a more disastrous effect. The GDP growth rate in 1981 hovered around 1.9%. While remarkably better than the average of -2.5% of its neighbors, it was markedly a sign of a seriously weakened economy. The economy was even more dependent on coffee than previously, a situation that worsened the crisis because of the drop in prices, but paradoxically saved Colombia. The steady income from coffee allowed Colombia to keep up on its loans, since the prices did not drop below the original pre-boom prices, thus earning it the distinction of being the only Latin American nation that did not fail to service its debt.

**Coffee's Stabilization**

Colombia and the general consortium of coffee exporting nations were fortunate that the ICO still governed coffee exports through quotas during the immediate post-boom period and throughout the Debt Crisis. If it had not, Colombia may have flooded the market with its product in order to raise export revenues. If Colombians had done that, other nations would have followed suit—if they had not already done so—and with such a large influx of coffee into the international market, the "adding-up problem" would have occurred. If that had happened, the general economic situation for all the coffee exporting countries would have deteriorated, further aggravating the world recession. With the drop in price, Colombia would have run the risk of not bringing in enough revenues to ensure payments on its debts, a situation that would have worsened the Colombian conditions by a large margin. During this period, perhaps more than in the 1970s, correct and accurate management of the coffee crop became essential. Coffee
stocks were increasing to an almost intolerable point. In 1985, Colombia had 44 tons of coffee in warehouses, which was costing it a total of US$40 million to store.\(^2\)

With this large coffee surplus, FEDECAFE looked for ways to lessen the Colombian stocks. FEDECAFE employed a number of tactics to achieve this. Namely, it restricted the replanting and expansionary efforts of the Colombian coffee farmers. By refusing loans intended to finance such efforts, FEDECAFE looked toward the future, realizing that if the coffee industry continued on its path of expansion and replanting, the coffee crops would continue to increase, further aggravating the international market prices. FEDECAFE also began to look toward diversification among the farmers. One of the growing techniques called for shading the coffee trees with other larger trees. By using banana trees, an industry already established since the early part of the 1900s, the farmers would have another crop to rely upon besides coffee, thereby defraying the impact of coffee prices.\(^3\) Furthermore, Colombia could then expand its already established banana sector, which would provide benefits to the Colombian economy at a lower amount of investment and with little or no expansion into virgin lands.

Though the lessening of loans slowed the expansion of coffee farms, the problem remained in that the amount of coffee produced was too great to fully export. Because of the presence of quotas and an already saturated market, the demand for Colombian coffee would not significantly increase; therefore, the supply could not increase without a reduction in price. In response, the government and FEDECAFE should have decreased subsidies to the coffee industry, thereby culling the less efficient operations, which then would have diminished the amount coffee coming to market and streamlined the coffee sector at the same time. Granted, this would undermine the ultimate purpose of
FEDECAFE, which is to protect the coffee farmer, but if some of the farms ended production, the farmers as a group would have benefited.

Another solution, though one with limited potential considering the financial restraints of a developing nation, is that FEDECAFE should pay farmers not to harvest. If the organization could approach the oldest farmers, the ones most likely to retire, it could encourage an early retirement with reparations for lost profits. FEDECAFE already pays the farmer for the coffee he or she produces, which is more than likely going to be stored, a situation that costs FEDECAFE even more money. If FEDECAFE instead paid the farmer a fair price, based on the prices garnered by the other farmers, the amount of coffee purchased would be lessened, which would then reduce coffee stocks. Once the coffee stocks have been reduced to an appropriate level, the farmers could be encouraged to begin production once again.

The Road to Take? The Neoliberalism and Diversification of Coffee

FEDECAFE did start to cut subsidies in 1984—namely the fertilizer subsidies. With the advent of neo-liberal policies in Colombian economic policy, the subsidies provided to the agricultural products would be significantly lessened. This policy would work two-fold: the production would be smaller with less fertilizer, and it would reduce the number of farmers. Cutting production to acceptable levels cannot be so simple. The government must provide another venue of employment for those who fail as farmers when the subsidies take effect. The Colombian government strove to improve the general economic situation by significantly opening the market, as mentioned earlier, which worked well. But the coffee exports still provided a large amount of the external revenues from international trade.
Diversifying the economy, as the neo-liberals sought to do by the opening of trade barriers, needed to be done in a manner that still allowed for coffee to be a major force in the economy. This may sound like a paradox, but it is not. By diversifying the economy, a nation should not seek to exit from an export product such as coffee. Instead, it should broaden the economy to lessen the dramatic effects of primary exports such as coffee, but at the same time promote the commodity as a steady source of income. Coffee performed well for Colombia, and throughout the 1980s, it remained a steady source of income that, even during the recessionary period in Latin America, allowed Colombia to continue paying its outstanding loans. The fact that Colombia still received loans during the Latin American Debt Crisis is a testament to the potency of coffee and the steady hand it exercises over the economy of Colombia. This fact, and the continuation of agricultural diversification through the flowers industry, kept Colombia afloat during the “Lost Decade,” and provided for Colombia’s heralding as an upcoming NIC at the advent of the 1990s.

By the 1990s, as mentioned earlier, Colombia became the world’s largest exporter of coffee by value, and the second largest producer behind Brazil. Along with the continued success of coffee as an export commodity under the supervision of FEDECAFE, the economic diversification continued. This process of continued support and improving of the coffee production served coffee well, especially since in the late 1980s, the quota system of the ICO fell to the wayside, and coffee became an unregulated commodity. With this development on the international level, FEDECAFE correctly pursued a vigorous advertising campaign, which is epitomized by the emergence of Juan Valdez. Unlike oil, coffee has a distinct advantage as a primary commodity; although oil
is necessary for any energy-consuming nation to run, it does not differentiate significantly between countries. Though the various nations with refineries can specialize in which type of petroleum products they export, crude oil remains the same.

Coffee is not all the same. There are two different specific types of coffee, arabica and robusta, and of these, there are different subspecies that are bred for various reasons. By advertising Colombian coffee as the premium coffee of the world, FEDECAFE began to influence the markets that consumed coffee. This development allowed Colombia to appeal to the consumer directly and greatly increased the amount of coffee sold. For example, if one goes to the supermarket and picks up a can of ground coffee, a small picture of Juan Valdez denotes which can of coffee is 100% Colombian grown. Once consumers knows this and are convinced that Colombian coffee is the premium coffee available, they will look for the coffee that is Colombian, choosing that over a lesser type of coffee, even if there is a price difference between the two types of coffee.

By employing this type of management during the 1990s, Colombia was able to continue on a path of economic growth up until 1997, when an economic recession occurred with a ferocity that had not been seen since the depression of the 1930s. The recession is a result of political turmoil, which is in part being caused by a weak state that is gradually losing its legitimacy and control over its territory to the “communist” and other guerillas within the Colombian borders, the importance of FEDECAFE and coffee has increased dramatically.
The Unforeseen and Immeasurable: Political Turmoil and Coffee

Unfortunately for the people of Colombia, even if the coffee prices were the highest in years, and they had had a bumper crop, the economy of Colombia would still be in shambles. Colombia’s economic problems stem not from a lack of export revenues or anything that involves coffee, but from the weakness of the government.

An economy in turmoil is not one that investors typically are willing to risk their money in, and hence the economy has come to a virtual standstill. But since coffee is a homegrown industry, controlled by the Colombians through FEDECAFE, it is not subject to the whims of outside investors. This is the freedom of such an industry as coffee; it can continue to grow in such an environment if the civil turmoil is not allowed to interfere. If the Colombian government can keep the civil unrest from the coffee farms, the economy of Colombia will not totally collapse, and the government could stay away from defaulting on their loans, a situation which would worsen the economic despair of Colombia, and possibly lead to the overthrow of the present government.

A strong government in Colombia is not possible as long as a civil war rages in the country sapping the strength of the population and the government resources. Even strong governments have problems when dealing with two pressing issues that strip away resources. For example, United States President Lyndon Johnson tried to fight a war in Vietnam and win the domestic “war against poverty” at the same time. But even with the immense resources of the United States, he was unable to do either effectively. The current Colombian government faces the same predicament; it must attend to the guerillas, or there will not be a Colombia for much longer. At the same time, the government must work with the economy and promote an increase in infrastructure to
better the economic situation in Colombia. Paradoxically, the government faces another problem with the political turmoil: to have a strong enough government to deal with the rebels—and the drug lords that hire the various insurgent groups to guard the drug labs—would bring about an increase in warfare, something that would hurt Colombia and its infrastructure even more egregiously.

This is where coffee must play a part in the rebuilding. Coffee, because of its far-reaching tendrils of economic influence, presents itself as a bandage to the wounded Colombian economy. FEDECAFE has been able to stabilize the revenues brought in by coffee, and at the same time, it has developed an industry that is able to function with little government intervention. It is decentralized in nature; the majority of coffee farms in Colombia are small two-hectare plots that are tended by a family, a situation that makes it hard to seriously cripple the coffee industry as a whole. To disrupt the coffee industry would require an earthquake like the one that struck in January 1999.5

Enterprising guerillas can bomb petroleum pipelines, railroads, and factories, with considerable effect. An industry such as coffee presents less of a target because of its immensity and the lack of critical nerve centers that would disable the operation. And because of its size, the coffee industry receives the support of a majority of the population, if only for the reason that their fiscal livelihood is directly linked to the coffee industry.
CONCLUSION

There are exceptions to the premise that primary commodities are not to be relied upon as the mainstay of an economy. Colombia provides, with its management of coffee, a paradigm for other nations in their attempts to lessen the injury that can be inflicted by primary commodities. By profiting greatly from coffee and using its revenue for development, albeit not always effectively, Colombia became the flagship of the new set of developing countries on the verge of being able to effectively industrialize. Without coffee as a source of funds, Colombia would not have had the assets to weather the Latin American Debt Crisis, to continue to build its infrastructure, and service its debt. Currie was correct in his analysis that agricultural development is essential to Colombia’s economy and general well being.¹ Because coffee and agriculture in general are labor-intensive industries, a large number of the population is affected by the welfare of this sector. With such a broad base, if the agriculture, specifically coffee, does well on the international market, the economy as a whole does better, because of positive spillovers. The increased capital base allows the government of Colombia to increase its investment in development.

Thought development plans change with time to reflect the attitudes of different administrations, changing economic conditions, and even the level of funding provided by foreign or domestic banks and investors, Colombia has held to the basic tenets of Currie’s plan. Even Sampras’s *Salto Social*, although a failure for political reasons, reflected Currie’s original contention that underdevelopment is caused, in part, by underconsumption. Therefore, to develop, a nation must spur on the economy by making it possible for the indigent populations to work and earn wages, which would be spent on
goods, which in turn, increases the capital of the society. Though Professor Currie did work with improving the situation of the impoverished, he believed that by using coffee and eventually other exports, which would effect a large segment of the population, a nation could achieve the same results with less investment. Colombia, with tools such as FEDECAFE, which had already been established for decades, was able to diversify its economy while still improving the efficiency and general welfare of the coffee industry.

Because of the economy’s diversification, coffee has been able to bring in more funds while not increasing Colombia’s dependence on coffee. In 1997, coffee brought in US$3.8 billion dollars and accounted for 3.95% of 1997 GDP, quite a bit lower than the 1970 figure of 6.5%. If coffee can increase its revenues, and Colombia, in non-boom or bust years, keep the coffee to GDP ratio fairly static, then the development plans of Colombia may succeed. Coffee still has an enormous effect on the economy, there are approximately 500,000 coffee farmers in Colombia. That number does not count those who process coffee, ship coffee, and hold other jobs relating to the exporting of coffee.

With the success of Colombia’s coffee management, and the growth of other industries, Bogotá was hailed in the early to mid 1990s as the new Latin American success story. But as Colombia’s economy faltered question has arisen, is this like the bust of the 1980s? Has Colombia dependence on coffee brought on the crisis? The answer is no.

When the recession began in 1997, coffee revenues were beginning to rise after a short decline in 1995, thereby increasing the overall welfare of the economy, and not producing a damaging effect (fig. 4). Coffee still wields considerable strength and influence in the Colombian economy, but a dependence on coffee did not overtly cause
this recession. On the contrary, the recession was *aggravated by the loss of coffee production* from the earthquake in January 1999.5

The current economic turmoil stems from the virtual civil war in Colombia, combined with poor fiscal policy. As the government loaned money to cover budget deficits and a growing debt, the economy began to heat up, again from the influx of funds. The budget deficit was caused by increased social spending, such as *Salto Social*, and fighting with the guerilla forces and drug lords. To combat the inflation, Banco de la Republica raised interest rates to curb private investment. The lack of private investment, in part because of the higher interest rates and the political turmoil sent the economy into a recession. Increased warfare, the repeated bombing of oil lines, and the general discouragement of foreign investors by all the factions have made Colombia an inhospitable place that does not seem to be on the way to recovery anytime in the near future.

Coffee, ironically, holds the future for Colombia. Because of its potency and steady income, it is vitally important to Colombia. The intent of FEDECAFE is to protect the coffee farmer. Because it is a private organization, it is not officially an instrument of the Colombian government, and in that fact lies the future of coffee and Colombia. Coffee, because it is a primary commodity that is grown by 500,000 farmers on plots averaging 2 hectares, presents the perfect homegrown industry.

Colombian coffee is managed, grown, researched, roasted, packaged, and loaded for shipment within Colombia. It is sold to a consumer base that uses it in varying amounts on a regular basis, some of whom are addicted to the caffeine coffee contains. Demand for coffee is not that fickle, it stays steady and has increased with the popularity
of specialty coffee drinks. Because of the absence of quotas since the late 1980s, FEDECAFE has used the image of Juan Valdez extensively, and has inundated the United States consumer with the idea that Colombian coffee is the best tasting coffee in the world. The further development of FEDECAFE as an advertiser, producer, and shipper of coffee created an organization that, despite political turmoil, thrives. It took an earthquake to hurt Colombian coffee production and sales, and, in fact, FEDECAFE then appealed to the coffee drinkers of the world for monetary help to make sure the Colombian coffee farmer survive. Having an organization such as FEDECAFE to manage a nation's most important export makes sense, especially in nations that have difficulties with domestic turmoil.

Part of the reason for this quasi-immunity is that to strike at an entity such as FEDECAFE, a group would have to have means beyond the abilities of the Colombian guerillas. FEDECAFE is decentralized because of the nature of farming. Granted, there are hubs where coffee is gathered and shipped, but attacking a depot cannot cripple the organization. There are other depots across the nation; there are more farmers; there are various ports along the coast of Colombia; and the organization is too large to effectively engage. Another reason is coffee’s position as the mainstay of the Colombian economy. It is not directly subject to the policies of multinational corporations, nor is it directly controlled by the government. Instead, it is an organization of coffee farmers. Along with managing coffee, FEDECAFE provides electricity to rural areas, builds health clinics, and provides for the education of its farmers and families; it would hurt the public perception of the guerillas if they caused a cessation of such goods to the rural population of Colombia. Depending on the ferocity of the attacks and the initial popularity of the
guerilla group, an attempt to seriously disrupt the services provided by FEDECAFE and its production of coffee could backfire, and instead turn the guerillas into targets rather than saviors.

Colombia, through FEDECAFE and various development plans, has created a system by which coffee is effectively managed and used to benefit the economy and ultimately the population of Colombia. With such an approach, a developing nation could also further diversify its economy and lessen the damaging aspects of commodity dependence. By managing already established primary commodities, the nation can reestablish its control over its economy and provide for the future of the populace.

Commodity dependence without some form of limits can damage an economy and drag the unfortunate nation along a boom and bust cycle that affects the whole export sector, not just the primary commodity in question. Primary commodity dependence is a roller coaster without brakes. Managing the commodity allows a nation to control the speed and the ferocity of the dips and rises for a smoother, less stressful ride.
NOTES

Introduction

1 Chile and Colombia: Supermodel Angst, 1999, p. 1

Chapter 1

1 Chilcote, 1994, pp. 250-262
4 Franks, G. (professor). (2000, Feb. 23). [lecture]. EC 406 International Economics [class]. Helena, MT: Carroll College. Proven by the Hecksher-Ohlin Theory Model. It states that the prices are determined by the consumers and factors (manufacturing sector) of the consuming market. This was further validated by the economist Staffan Linder in 1961.
5 Kamas, 1986, p. 1177 and Yabuki & Akiyama, 1996, p. 4
6 Kamas, 1986, p. 1177
7 Ibid.
8 Ibid.
9 Ibid.
10 Yabuki & Akiyama, 1996, p. 4
11 Thomas, 1985, p. 108
12 Kamas, 1986, p. 1179
14 Ibid.
15 Oil Spurts to 9-year Peak, 2000, p. 1
16 Ibid.
17 Oil Hits 31-Month High, 1999, p. 1
18 Franks, G. (professor). (2000, Jan. 31). [lecture]. EC 406 International Economics [class]. Helena, MT: Carroll College. The extent of the effects of this can be seen with Mexico, if the oil prices drop US$5, the Mexicans lose US$3 billion.
19 Kamas, 1986, passim
20 Schiff & Valdes, 1998, p. 6
21 Ibid.
22 Ibid.
23 Chilcote, 1994, p. 223

Chapter 2 The Pendulum of Dependency: Coffee and Colombia

1 Bushnell, 1993, p.156-161. The Thousand Days War had demolished the Colombian economy. Because of this Colombia at this time had around 565 km of railroad track compared to the 14,000 km Mexico had already in place, Reyes also improved the canal system, and roads as well. During the Thousand Days War, United States in an effort to control the future canal across the Panamanian isthmus, helped the populace in what is present day Panama revolt and declare itself independent. This succeeded because Colombia was too occupied by the War of a Thousand Days. Reyes decision though unpopular was based on political necessity.
2 Ibid., p. 165
3 Ibid., p. 166
4 Ibid., p. 169
5 Ibid. At this point Colombia officially became the second largest exporter of coffee in the world, at claim that would not change until 1990, which marked their ascendancy to the top exporter in the world in terms of value.
Without the ICO quotas, the price of the coffee would have been lower, but Colombia also would not have had more in stock than they were allowed to sell on the market.

Banco de la Republica and DANE

FEDECAFE and Bushnell, 1993, p. 169

Thomas, 1985, p. 102

Banco de la Republica lists coffee, coal, petroleum and derivatives, iron, emeralds, and gold as traditional exports of these oil accounted for a total of approx. 72 million dollars in 1970.

Banco de la Republica categorizes bananas, flowers, textiles, paper, chemicals, leather, and foodstuffs as non-traditional exports

Mares, 1993, pp. 464-468

Banco de la Republica. A total of 192 million dollars which I divided by total GDP which in 1970 was 7,198.4 million dollars

Sloan, 1973, p. 52-54. Currie was an advisor to FDR during the mid-1930's and directed in Colombia the first general country survey organized by the World Bank


Agosin, 1976, p. 351

Tang Di, 1987, p. 15


Thomas, 1985, 102

Bushnell, 1993, p. 236

Ibid., p. 268

Schloss & Thomas, 1986, p. 10

Bushnell, 1993, p. 268

Ibid.

Ibid.

Ibid.

Schloss & Thomas, 1986, passim. The Latin American Debt Crisis did not officially occur in Colombia. The reason expounded upon by some is that Colombia did not participate in the rash of overborrowing that occurred throughout much of the Third World and especially in Latin America during the 1970s. They were able to keep the debt ratio down to 30% in the early 80s and this further benefited them later as the crisis worsened.

Thomas, 1985, pp. 104-105


Superlano, 1992, passim

Ibid., p. 853

Ibid.

Ibid., p. 853-855

Schloss & Thomas, 1986, p. 11

Ibid.

Ibid.

Ibid.

Tang Di, 1986, p. 15

Tang Di, 1986, p. 15 and Banco de la Republica

Tang Di, 1986, p. 15

Ibid.

Ibid. In 1987 they exported a total worth of US$154 billion that is compared with US$990,000 in 1970.

52 Ibid.
53 Ibid. In fact, the agricultural sector was particularly hit hard by these policies.
54 CIA World Fact Book, 1998, p. 6. Part of the problem was Sampras became mired in allegations of taking drug money for his campaign.
56 Ibid.
57 Ibid.
58 Ibid.
59 Chile and Colombia: Supermodel Angst, 1999, *passim*
60 Ibid., pp. 2-3
62 Banco de la Republica. 1997 coffee export figures were about 2.5 times the 1996 coffee figures: in 1997 Colombia brought in US$3,836.3 million dollars and in 1996 it was only US$1,577.3 million dollars.

Chapter 3 The Roads Taken and Those that were Ignored: a summary of the options of Colombia

1 Thomas, 1985, p. 102
2 Ibid. p. 108 The coffee stocks amounted to 12.2 million bags of coffee, it cost about US$44 to store a ton coffee.
3 FEDECAFE
4 Thomas, 1985, p. 119
5 FEDECAFE The January 1999 earthquake seriously disrupted the Colombian economy, particularly the coffee farms that are throughout the mountains of Colombia, which happens to be where the earthquake was centered.

Conclusion

1 Schiff & Valdes, 1998, p. 1 (abstract)
2 Banco de la Republica & DANE and Thomas, 1985, p. 102
3 FEDECAFE
4 Chile and Colombia: Supermodel Angst, 1999, *passim.*
5 Ibid. p. 3
6 FEDECAFE
References


