Liberalization and globalization: Trojan Horse for the cotton traders' domination in Francophone Africa

Africa cotton under visible and invisible threats

The Francophone African Countries (FACs) are protesting against the subsidies of a few countries which distort market. The survival of their cotton sectors, of crucial social and economic importance, is actually under threat. The FACs nevertheless are overlooking the macro-phenomenon of concentration and integration which encompasses huge power in price formation at their expense.

Expansion of the concentration process to cotton

Concentration process is general
Concentration and integration is exacerbated in all agricultural commodities trading and processing. The threshold of Concentration ratio of 40%, ensuring some competition, is far much exceeded in all cases in many countries.

Concentration of cotton trade is clear
An oligopolistic situation prevails in the international trade of cotton lint. Its majors members are enjoying a dominant position in the FACs within less than one decade.

Detrimental price capture
Materialization of abuse in price formation
Negative impact on the price obtained by producers can be feared when oligopolistic situation prevails. Higher the concentration is, higher is the wholesale price spread. Abuse of dominant position is frequent through the modalities of the procurement of raw material by food processors (like in coffee).

How Trojan Horse came in
Till the beginning of 1990s, the scheme of exporting cotton lint through a commissioner protected the FACs from the intervention of cotton traders. This scheme was forced to evolve as a reaction to the globalization process, assuming that liberalization would enable to get profit from competition between traders.

How Trojan Horse hurts
Liberalization did not correct the fact that the FACs still suffer from pricing which does not compensate the higher quality of their cotton. Bilateral change of the selling rules by traders is taking place (abandonment of contradictory quality control, non-strict respect of commitment to remove cotton bales when market is bearish). This is financially costly and image damaging to the FACs.

Subtle and strong control of cotton price
It can be suspected that price control of cotton takes place through the direct influence on the A Index, regarded as an indication of international price while it is based upon intention declarations provided mainly by international traders.

The offer of slightly higher prices on small amounts helped. It disappeared once traders felt their penetration set down. Their position was consolidated afterwards when they took over cotton companies forced to be privatized.

Disconcerting paradox
While concentration is reinforced worldwide, African countries were forced to dismantle their cotton companies, which hence became easy prays for trading MNCs. This paradox is puzzling with regard to the negative impacts being observed.