The Governance of Global Value Chains, Upgrading Processes and Agricultural Producers in Sub-Saharan Africa

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2.1 Introduction

There have been significant structural changes in the way trade, production and marketing are organized in recent decades. There is now wide recognition that global trade increasingly involves spreading the production of a final good over firms in several countries with each one undertaking what is better described as a ‘task’ in the overall process rather than the production of a discrete good or service (WTO–IDE, 2011). These changes, which result from the internationalization of global production and the fragmentation of trade across countries, have occurred as capital has become increasingly mobile under the accelerated pace of financial globalization. The implications of these changes have been increasingly analyzed through the lens of global value chain (GVC) analysis. This literature, which became increasingly fashionable during the 1990s, and its use of a heuristic approach to analysis, was motivated by the need to understand better how firms and labourers located in developing countries engage with more recent processes of globalization.

The changed nature of global trade has implications for late industrializers in sub-Saharan Africa (SSA). This is because of the nature of the integration process of countries and the current position of SSA within the international division of labour, organized through international production networks. Contributions to the literature which have assessed how patterns of global trade have changed have subsequently linked these shifts to qualitative changes in the governance structures associated with GVCs.

With particular reference to SSA, for example, Gibbon and Ponte (2005) argue that these shifts have resulted in SSA trading down rather
than up in GVCs. This is through increasing producer specialization within the lower value-added nodes of a given value chain rather than facilitating movement up towards higher value-added nodes such as processing, retailing and marketing. This is because the quest by transnational corporations (TNCs) or globally operating retailers for economies of scale at the marketing and retailing nodes of GVCs has resulted in increasingly hierarchical relations between firms across borders. Manifested at the global level, this has resulted in the marginalization of SSA in global trade through locking producers into buyer-driven GVCs and inhibiting movement into higher-value nodes of production, such as processing and marketing.

At the same time, it must be recognized that there are new opportunities for developing countries, including those in SSA, which are arising from the increasing fragmentation of global production across borders. For example, movement into the modern export sector and the production of high-value agriculture and ready-made garments (RMG) has been driven by the increasing integration of SSA economies into what are generally recognized as being buyer-driven GVCs. Contract farming is a form of vertical integration between producers and buyers and today represents how global agribusiness is making renewed inroads into African agriculture (Oya, 2012). The major difference between contract farming (e.g., in the case of horticulture) and contract manufacturing (e.g., in the case of RMG) is that the former is resource-seeking whilst the latter is efficiency-seeking (UNCTAD, 2011). However, both types of trade typically occur within similar types of GVCs in terms of their associated governance structures, being driven by large retailers, multinational and transnational enterprises. More broadly, both types of contracting arrangements are forms of non-equity modes of production (UNCTAD, 2011).

The benefits as well as costs for producers participating in one GVC as compared to another are essentially contingent on how the integration process of producers with this type of trade is managed. This is related to the associated governance structures of GVCs, that is, the contractual linkages that exist between independent firms or farms. These internal governance structures between firms may in turn be affected and influenced by external governance structures determined by governments. At the core of GVC analysis is the notion of governance, which determines how the production and marketing of goods and services are organized globally, which in turn reflects economic power. These structures may serve to facilitate upgrading processes for producers, or inhibit them.