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PARTISAN COCOA: VARIETIES OF COCOA UPGRADING IN GHANA AND CÔTE D'IVOIRE

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Thesis Summary

Abstract

The study of global production networks (GPNs) has gained significant attention in international development communities as a pathway for developing countries to catch up economically. However, most analyses have downplayed the role of the state and domestic politics in shaping upgrading choices and outcomes. Meanwhile, comparative advantage theory and the role of lead firms cannot satisfactorily explain upgrading outcomes. This dissertation, therefore, takes a political settlement approach to illustrate a comparative institutional framework that explains the variation in upgrading strategies between Ghana and Côte d'Ivoire in the global cocoa-chocolate value chain. Ghana's dominant upgrading pathway is capturing higher margins on unprocessed commodities and producing new forms of existing commodities, while Côte d'Ivoire's dominant strategy is localizing commodity processing. By analyzing historical data across three critical junctures (colonial, post-colonial, and neoliberal) and conducting elite interviews, this thesis argues that a critical factor that accounts for this variation is the relative distribution of political and organizational power of capitalists (cocoa farmers vis-à-vis cocoa processors) relative to the state, which is responsible for allocating resources and rents, especially the apportionment of rights through industrial policy. Moreover, in the Ghanaian and Ivorian contexts, where forms of primitive accumulation still drive capitalist transformation, the embedded power relations in the cocoa value chains further determine the institutional capacities required to mediate the collective dilemmas inherent in economic upgrading. By increasing awareness of power relations in shaping long-term growth in developing countries, this thesis encourages more decentralized

forms of economic decision-making in addition to more balanced power structure among competing economic elites.

Thesis Argument in Brief

Comparative advantage theory and the role of lead firms cannot satisfactorily explain this dissertation's core puzzle and problem: ***why Ghana and Côte d'Ivoire vary in economic upgrading strategies despite facing similar incentives and constraints imposed by the institutional and regulatory mechanisms of the global cocoa-chocolate value chain***. The dissertation, therefore, adopts a political settlement approach. More specifically, the dissertation argues that the difference of upgrading strategies between Ghana (capturing higher margins on unprocessed products) and Côte d'Ivoire (localizing commodity processing) can be explained by *politics and power relations*. Contrary to mainstream global value chain accounts that conceive economic upgrading as an apolitical and technical process, this dissertation develops an alternative interpretation. It finds that upgrading is a collective dilemma comprising distributional conflicts, collective action, and coordination problems. Based on this interpretation, upgrading is institutionally demanding and depends more on mechanisms that allow political and economic elites to organize and manage their relationships and resolve collective dilemmas inherent in the upgrading process. Without denying the usefulness of institutions as the central mechanisms for resolving these collective dilemmas, this dissertation further argues that their origin, evolution, and change are products of conflicts and contestations between economic and political actors. Moreover, how these institutions achieve their goals depends on the embedded power relations between contending groups over public resource allocation or rent distribution.

Variation of Upgrading and Its Collective Dilemmas

The study distinguishes between varieties of upgrading in agro-commodity-based value chains, namely (1) capturing higher margins on unprocessed commodities, including producing new commodities, and (2) localizing commodity processing. It further argues that these two varieties of upgrading are hierarchic only in terms of technological and learning prospects that each can contribute to national industrial development.

As returns from labor-intensive manufacturing are increasingly falling due to the dispersal of manufacturing capabilities and demand for natural resources from emerging economies like China are continually growing, this dissertation contends that the combination of both upstream and downstream upgrading strategies can facilitate natural or agro-resource-rich developing economies to catch up. However, if adopted as distinct strategies, each has inherent dilemmas and resolving them involves addressing different complex tasks. The tasks associated with capturing higher margins on unprocessed commodities are less complex than those associated with localizing commodity processing, primarily because the former involves few actors, such as smallholder producers and the state and its economic institutions regulating upstream smallholder production. The complexities increase with localizing commodity processing because it involves resolving distributional conflicts over the total value of products between upstream cocoa farmers and cocoa/trader processors in the downstream segments of the value chain. This strategy manifests more as a public good because it involves state elites and economic institutions reconciling the different interests of upstream and downstream producers to develop linkages in the industry. Consequently, the conflicts inherent in this strategy are more intense.

Historical Roots of Power Dynamics

Explaining policy choices requires understanding the political incentive structure within which actors make economic decisions. Moreover, focusing mainly on political elites and state institutions while ignoring the industrial and capitalist organizations of the cocoa sector will generate a distorted picture. For Ghana and Côte d'Ivoire, the cocoa industry was critical because it was the primary source of accumulation for the state-building projects of the colonialists and, more importantly, independent nationalist ruling elites. The coalition politics and specific histories surrounding state-building in Ghana and Côte d'Ivoire produced patterns of political settlement that shaped the distribution of organizational power of actors within the cocoa value chain and how the industrial and the capitalist organization of the sector evolved. The political threats that elites in both countries faced from rival factions forced them to pursue political survival strategies in building institutions and the cocoa industry's capitalist organization.

At the elite level, the Ivorian independent ruling elites adopted political cooptation of key agrarian cocoa elites into the ruling regime to counter the vertical and horizontal threats that emanated from the political system. At the same time, it pursued cocoa sector institution-building strategies that allowed cocoa farmers and traders in the value chain to control the market exchange of the crop, albeit with moderate state intervention. Politically, doing so allowed the ruling elites to moderate class consciousness among the peasantry. Moreover, shaped by their capitalist orientation, the ruling elites forged a strong alliance with capital in general and cocoa processors in particular to promote value addition at home (Rapley, 1993). These strategies formed the distribution of organizational power and the broader configurations of state-business relationships within the Ivorian cocoa value chain. Despite the crises of the 1980s and 1990s, neoliberal policies further reinforced the extant distribution of organizational power. As a result, power distribution has long been tipped in favor of cocoa-trader processors, instead of cocoa farmers.

Similarly, the Ghanaian ruling elites pursued institutional building strategies aimed at weakening the organizational fronts of cocoa farmers. However, unlike Côte d'Ivoire, the state controlled the entire market exchange process along the value chain to block the sources of wealth and accumulation for political contenders from cocoa-producing provinces. The regime complemented this approach with its socialist project crowding out all foreign and indigenous private capital from industrial space, including downstream cocoa processing. Elite cocoa farmers played a significant role in the five successive military coups (1966-1981) after Ghana became independent in 1957. The underlying distribution of power within the Ghanaian value chain withstood pressures from the Bretton Woods system in the 1980s and 1990s to break the state monopoly of the COCOBOD, the parastatal regulating the sector. Because of the failure to break down the COCOBOD, neoliberal reforms instead opened limited opportunities for foreign and indigenous capital to participate in cocoa processing. However, the reforms helped the COCOBOD acquire bureaucratic capabilities to undertake export management and international trade effectively. Along with their historical roles, the significance of the sheer size of cocoa farmers for electoral victory in Ghana's current democratic dispensation further consolidates their organizational capabilities.

Embedded Power Relations and Institutional Capacities

Embedded power relations in both countries significantly determined *three* features of institutional capacities required to resolve collective dilemmas associated with upgrading strategies. The first is *consultation*, allowing actors to learn about each other's preferences regarding goals and mechanisms needed to achieve those goals. The second feature is *credible commitment* in which both political and economic actors develop trust for each other, including belief in each other's willingness and ability to commit to implementing agreed policies and courses of action. Credible commitment can be obtained through formal and informal institutions (Hickey et al., 2015). Formal institutions of credible commitment include laws that prohibit the expropriation of private property and courts that enforce contracts. The informal ones include social norms and patron-client networks. The third feature is *monitoring*, allowing actors to obtain relevant information on others' behavior regarding stated goals and actions.

As already noted, how these institutional capacities emerge and function effectively as mechanisms to resolve the collective dilemmas associated with both forms of upgrading depends on the embedded organizational power distribution within the cocoa value chain. Given that cocoa farmers in Ghana possess significant organizational power relative to cocoa processors, the state developed institutional capacities to resolve the distributional conflicts and coordination problems associated with upgrading by capturing higher margins on unprocessed commodities. The board-managed cocoa sector developed institutional capacities for consultation, monitoring, and credible commitment for upstream production. Cocoa farmers are well represented on the board and have actively participated in discourses that seek to promote agronomic practices to enhance the quality of their crops. Further, the COCOBOD has instituted effective monitoring mechanisms that sanction producers who fail to follow quality parameters.

Moreover, through perks from political elites and public goods from the COCOBOD, cocoa farmers continuously receive a guaranteed commitment from the state. In contrast, however, the effectiveness of these institutions in resolving collective dilemmas for localizing commodity processing is low and sometimes non-existent in specific cases. The Ghanaian government has credibly committed to the protection of private property through such investment policies as economic processing zones and effective judicial systems. However, it has failed in some respects, e.g., supplying inputs in the right quantities at lower prices to cocoa processing firms. Cocoa processors have developed mutual interests with political elites, but this is insufficient to influence COCOBOD to subsidize further its premium quality main cocoa crops (Whitfield et al., 2015). Moreover, any such move would have meant significant revenue loss for COCOBOD, whose bureaucratic power depends on revenue flows from the sale of premium cocoa at world market prices over the years.

Meanwhile, there are no institutionalized consultation practices and monitoring only takes the form of ensuring that cocoa processing firms wishing to import cheaper beans for their operations meet Ghanaian quality parameters. This stringent measure only exacerbates the operational problems of processors. Cocoa beans that meet Ghanaian quality standards are difficult to obtain. Moreover, when cocoa processors manage to acquire cocoa beans that meet Ghanaian standards, it comes at a cost disadvantage to their growth, survival, and competitiveness.

In Côte d'Ivoire, the state has developed relevant institutional capacities to resolve the collective dilemmas for localizing commodity processing. Cocoa processing firms are well represented in the Conseil du Café-Cacao (CCC), the cocoa regulatory body, and are consulted in the sector's management. Such consultation practices also include representatives of cocoa farmers being provided a platform that allows for the necessary measures to overcome the collective action problems regarding industrial policies to promote competitiveness. Besides, like Ghana, Ivorian cocoa processors are guaranteed credible commitment regarding the protection of their properties and an effective judiciary to enforce contracts relating to market transactions undertaken in Côte d'Ivoire. Access to raw inputs is also guaranteed through a marketing arrangement that allows contracting between cocoa farmers and processors. Moreover, the state has developed institutional mechanisms to identify processing firms that are eligible for its conditional Single Exit Duty (DUS) incentive.

However, in the upstream node, the Ivorian government could not effectively implement these institutional capacities. Although a platform for consultation exists for cocoa farmers, the collective action problems coupled with the farmers' relatively weak organizational power deny them access to public goods that promote their agricultural practices and wellbeing. Moreover, despite recent efforts, the institutional capacities for monitoring and sanctioning low-grade cocoa bean producers are moderately low, resulting in the production of cocoa beans, discounted well below world market prices.