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The Malabo Declaration and African Continental Free Trade Area: A case for supranational industrial policy

Summary

This policy brief argues a case for a supranational industrial policy, akin to mission-oriented policies, supporting the agriculture industry in Africa as envisaged in the African Union's Malabo Declaration on Agriculture and Postharvest Losses, which was adopted in 2014. This would enable Africa to propel the first steps of the African Continental Free Trade Area (AfCFTA). Towards this end, the proposed policy approach is a supranational and state-directed policy effort orchestrating the development of specific regional manufacturing and services value chains and linkages covering more than one country in each region. Most critical for the AfCFTA is that the policy has to intensify the dominance of African-owned private enterprise in this development.

Introduction

Through *Agenda 2063: The Africa We Want,* the African Union (AU) articulates a vision of an integrated, prosperous and peaceful Africa that is a global powerhouse by the year 2063 (African Union Commission 2015). Key in this vision is developing African-domiciled and African-owned globally competitive manufacturing and services firms that support greater intra-African trade. The African Continental Free Trade Area (AfCFTA) is an important AU initiative that aims to propel this industrialisation objective.

Currently, industrialisation is synonymous with development, as leading industrialised nations are home to citizens with better human and economic well-being than the industrially lagging economies. Through the AfCFTA, Africa seeks the same. However, the continent must define an alternative industrialisation route as China and other emerging Asian nations currently dominate the traditional route of industrialisation through the labour-intensive manufacturing of consumer goods. In principle, the continent's notable endowment in natural resources, including vast tracts of arable land, presents an opportunity for industrialising through manufacturing and services linkages in operations that exploit these resources. Indeed, the

United States of America, Sweden and others had such resources to propel their early industrialisation drives (Wright & Czelusta 2004). In Africa, the agriculture industry emerges as a prime candidate for such development. To this end, this brief argues the case for developing agriculture to champion the AfCFTA drive through specific, direct and indirect government policy and practice.

Through the Malabo Declaration, the AU targets accelerated growth in agriculture to contribute to greater prosperity on the continent (AUC 2014). The AU specifies a variety of ways, which include supporting related initiatives like the Comprehensive Africa Agriculture Development Programme (CAADP) and boosting intra-African trade in agricultural commodities and services, and commits African countries to seek to allocate at least 10% of public expenditure to agriculture, among other initiatives seeking to support the declaration. Notably, the Malabo Declaration explicitly seeks an efficient and effective utilisation of resources in order to ensure that where governments commit scarce financial, human and technical resources, improvements are visible and widespread.

Seeking to inform policy and practice of state finance, agriculture and infrastructure development, as well as trade and industry departments (the ministries), local and international funders of agriculture development in Africa and in the process, tacitly provide signals for private sector investment in the agriculture industry, this **brief proposes and argues a case for a supranational industrial policy supporting the development of systemically efficient agriculture industry value chains**. The limited focus is different from the wider focus suggested by Odijie (2019). The proposed policy regime is akin to mission-oriented policies in their narrow focus of developing specific and globally competitive capacity and capabilities in the agriculture value chain. I posit that such a narrow focus is critical for rapidly developing globally competitive manufacturing and service capabilities than a wide focus.

Why agriculture?

The link between improvements in the productivity of the agricultural sector of developing countries and increases in industrialisation is demonstrated severally (Lewis, 1954; Rosenstein-Rodan 1943). In principle, and cognisant of the dynamics and differences between food and cash crops, profitable farming drives demand for both farming-linked and non-farming-linked goods and services from both domestic and import producers.

Many African countries have vast tracts of arable land and some even have adequate water resources to boost agriculture production and in turn spur industrialisation, ceteris paribus. Despite this, the continent has the world's largest proportion of people facing food insecurity standing at 27% compared to world, Asian, Latin American and North America, and European averages of 9.3%, 7%, 6.4% and 1.2%, respectively (FAO, IFAD, UNICEF, WFP & WHO 2017). This disappointing scenario arises from numerous challenges that, among other factors, include inadequate and unreliable infrastructure, most notably irrigation facilities, inefficient and import-dependent supply of agriculture inputs that include machinery and seeds, and barriers to greater investment that are partly linked to land ownership. In addition, and with a few exceptions, agriculture in Africa largely operates as family farms cultivating small fields, mostly manually. Thus, despite agriculture being core to the culture and livelihoods of the continent with over 60% of Africans living largely as subsistence farmers (FAO, IFAD, UNICEF, WFP, and WHO 2017), yields remain too low to spur meaningful industrialisation similar to experiences elsewhere, most recently in China.

Notwithstanding these challenges, the AU boldly articulates a vision of using agriculture to 'enhance competitiveness at the industry and enterprise level through exploiting opportunities for scale production, continental market access and better reallocation of resources' (AUC n.d.: para. 1). This dictates abandoning the traditional and currently dominant views of agriculture in many parts of the continent and looking at this industry differently.

Agriculture as a business and not a way of life

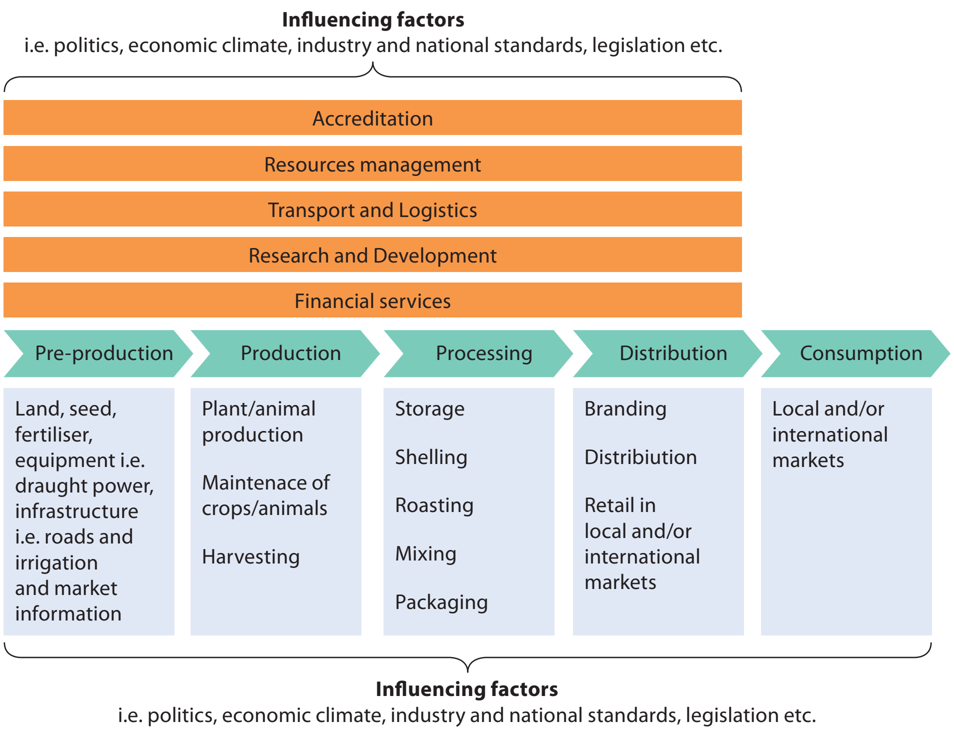
Subliminally echoing the objectives of the Malabo Declaration and AfCFTA, the President of the African Development Bank, Akinwumi Adesina, has predicted that the continent's future moguls will emerge from the agriculture sector. He asserts that the demand of output from agriculture – mainly food – will spur demand for a greater breadth and depth of manufacturing and service serving this industry in Africa. Prominently he states that, 'it's not agriculture as a way of life in a village, it's agriculture as a business'.[1]

Modern agriculture relies on a range of input goods and services that serve the industry starting from the conception of production, through the different phases of production, progressing to the delivery of product to the final consumers, and final disposal of the industry's output (see Kaplinsky & Morris 2001). These links form the agriculture value chain schematically represented in Figure 1 covering food crops, non-food crops, and animal production.

The modern agriculture industry employs a plethora of manufactures and services inputs that combine to

1. Interview with Mr. Akinwumi Adesina, President of the African Development Bank. *Times of Africa* (TOA), 11 May 2017. Accessed 29 October 2021, https://thetimesofafrica.com/interview-mr-akinwumi-ayodeji-adesina-president-african-development-bank/

Figure 1: A generic agriculture value chain



Source: Author

consistently meet quantity and quality demands of a wide consumer base and still remain profitable. Such goods and services include the seeds, machinery and animal vaccines, as well technical advice on land preparation, managing animals, finance and access to markets. In global value chains, the production of these inputs is fragmented, spanning different countries. For instance, a firm in Country A can play a significant role in the value chain of producing farming tractors by manufacturing fuel injection systems and/or other parts for these vehicles, which are assembled by another firm in Country B using a variety of imported and locally produced parts.

The creed of this strategy is that exports positively affect economic growth by encouraging the domestic producers to update production techniques and technologies to remain competitive in global markets. Relevant to the AfCFTA is that exports raise intra-industry and inter-country trade, which helps greater economic integration (Abou-Stait 2005; Songwe, 2019). Africa seeks this initially within its various economic regions, gradually growing to continental and ultimately the global type of value chains. It is important to ensure that such chains are systemically efficient to deliver all goods and services timeously and in sufficient measures. This must be the core focus of public and private policy drives seeking to improve the agriculture industry of Africa, because inefficiencies in any part of a value chain lead to suboptimal outcomes.

The question is: *How can the African continent rapidly build systemically efficient and competitive agriculture value chains that boost farm yields while simultaneously spurring the growth of an African-domiciled and African-owned manufacturing and service inputs industry base?*

A supranational industrial policy for economic integration through agriculture

Developing African cross-border manufacturing and services linkages serving the continent's agriculture industry is essentially about industrialising the continent using its primary resources. In many cases this is largely an introduction of new commercial enterprises to countries and populations not familiar with manufacturing and related services industries. Indeed, many regional economic communities in Africa have industrialisation plans that emphasise the importance of regional value chains. For example, the SADC Industrialisation Strategy and the Economic Community of West African States (ECOWAS) West African Common Industrial Policy (WACIP), among others, emphasise a need for strong regional value chains to enhance global competitiveness.

Broadly, two approaches are available to develop such linkages across Africa. One approach advocates employing the 'visible' hand of government to direct industry-specific investments. The argument is that this permits the deploying of resources to activities that enhance economic growth and stability, and creates an atmosphere conducive to private investment in addition to ensuring political stability (Stiglitz 1996). Cognisant of many deleterious government intervention outcomes, the modern aspects of this policy approach emphasise scope and temporal limitations to state intervention, largely directed addressing market imperfections and creating non-existent markets to assist specific industries (Wade 2003). In contrast, the opposing approach decries industry-specific state interventions in industrialisation processes. Instead, it advocates leaving the industrialisation process to market forces with governments playing an indirect role, that is, maintaining the rule of law and managing monetary policy, among other related policy levers, because governments are said to lack the capacity and capability to intervene in a manner that leads to an efficient allocation of resources for great welfare improvements (Wade 2003). It is within this discourse that Africa seeks industrialisation marked by a high intra-Africa trade complementary index. In this realm, the critical question is: *Can industrialisation be characterised by greater intra-Africa trade links develop without a degree of explicit and targeted state coordination?*

This brief asserts that while this may eventually happen over a long period, it is highly unlikely to happen within the temporal schedules of the Malabo Declaration, AfCFTA and Agenda 2063. Against this assertion, I argue a case for the state to unambiguously lead and coordinate this development, rather than adopting a laissez-faire approach to propel the realisation of targets set by these the aforementioned AUC initiatives. Key in this assertion is the efficient and effective utilisation of scarce resources to deliver greater and visible positive results. Such deficit and scarce resources include technical, financial, institutional capacity and capabilities, among many deficits limiting economic development in Africa. The COVID-19 pandemic has exacerbated and further exposed these deficits, especially finance and technical capabilities. However, this should not dampen the need for state intervention. **Instead, and using the resources available, it should heighten the need to formulate systemic supranational policies that draw from the frontiers of knowledge to rapidly deliver a defined set of cross-border industrial linkages that develop and maintain a global competitive agriculture industry in Africa**. Important for modern economies is that the proposed interventions unequivocally support both the private and state firms and compel them to quickly learn and attain independence from state aid to avoid unbecoming practices that are typical in cases of unlimited state intervention, most commonly corruption and a limited drive to innovate to compete in the global markets.

Indeed, state intervention in industrialisation is established and has had notable successes in Singapore, Malaysia, Hong Kong, South Korea and most recently in China. There, state-support was limited in both the scope (that is, which activities and or industries to support) and length of time to support specific activities, industries and firms. Notably the intervention was distinct in rewarding and incentivising exports and improvements in industrial efficiency through facilitating the importing of advanced production technologies and practices, but firmly punishing inefficiencies and failures to attain stated operation standards (Wade 2003). Surprisingly, the US and the UK, who often presented as the bastion of free market orthodoxy, used this approach in their early industrialisation epochs, and continue to use this approach (Chang 2005). Recently, both countries effected state-led financial assistance to stimulate recovery from the impacts of 2008 global financial collapse. In the UK, the state played a key role in nurturing the biotechnology industry in its infancy (Berry 2016), and most recently in the case of addressing the adverse economic effects of the COVID-19 pandemic. In fact, and with a few exceptions, all present-day developed countries have, at one time or the other, employed this approach in their history, particularly at their early stages of industrialisation (Chang 2005). This is not surprising, especially noting the organised nature of value chains, which arises from intervention by a variety of factors that include the state. Against this knowledge, I posit that explicit and state-led coordination is critical to initiate the development of a critical mass of linked, African-domiciled and African-owned manufacturing and services firms serving a growing modern and productive African agriculture industry.

However, there is a caveat. The proviso is that all intervention plans and actions must be jointly formulated and/or coordinated across national borders, clearly defining the role of each partner country, all of which should aim to deliver targeted and systemically competitive value chains. This changes the African industrialisation processes from unfolding as national agendas to being regional and indeed African agendas. In this context it is important to reflect on the real and perceived gains and losses of a degree of national sovereignty. For instance, while thinking and acting more broadly than national markets affords firms greater production scale economies, as well as access to larger and more readily accessible markets, it nonetheless means a loss of nationally determined standards. Nevertheless, locating the state at the core of coordinating the development of defined industrial linkages addresses market imperfections that include limited access to trade-related information, which is presently the bane of greater intra-African trade. In addition, such a coordinated approach may more or less readily inform firms and countries regarding returns of integration into these value chains. Furthermore, this approach may compel governments (at least some) to act both directly and implicitly to aid the development of specified linkages seeking to avoid the risk of being tagged as retardants of efforts of developing regional value chains.

A vital consideration in the proposed approach is ensuring that state intervention does not seek to manage demand and supply and limit the growth of the private sector, Soviet Union style. As such, interventions must assist both the private and publicly owned firms as long as they are African-domiciled and majority African-owned. Even more critical is that **all assisted firms must grow to global competitiveness and eventually operate profitably without direct state assistance**, ideally and as much as possible across firms in the same value chain but in different countries. This is important to ensure that state assistance is not perpetually confined to the same chains and industries. The proposed approach is an opportunity to pioneer a novel approach of a supranational industrialisation policy.

In this proposal, it is important to emphasise that benefits from integration will not be equal, **but** overall there will be mutual benefits of cooperating in developing value chain linkages that boost the agriculture industry of the continent. What is imperative is acquiring basic skills and experience in the manufacturing and services industries, and later using this experience in other sectors. This is the essence of value chain upgrading (Kaplinsky & Morris 2001). Most recently, China used this approach, starting with the simple assembling of goods for Western firms and using the acquired experience to produce its own high quality brands of consumer and industrial goods supported by a focused industrial policy regime. Agriculture is a fertile ground for emulating this experience.

Conclusion

Rapidly delivering the tangible and positive intentions of the Malabo Declaration and the AfCFTA is urgent. Noting the various deficits, contests, trepidations and undue influences that may undermine the related efforts, it is recommended that the proposed policy approach begins gradually before it ratchets up in both breadth and depth. This is critical, to learn from the inevitable mistakes that will be made, and to learn valuable lessons during the nascent stages of this undertaking. What is key is securing a regional or continental commitment to begin the process, ideally beginning with a focus on the less contentious goods and services of the agriculture industry.

Recommendations

Given the foregoing, and towards the proposed end, there is a need for both public and private sectors to seek to:

1. Determine the nature and extent of regional agriculture value chains to identify linkages that are ripe for early development in the context of national and regional technical and financial capacities and capabilities.
2. Identify and target a systematic reduction or elimination of all barriers to trade concerning the specified linkages.
3. Define supranational development plans targeting specified high-return and critical linkages for future development and domination by African firms within specified timeframes.

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