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Why We Need to Promote African Value Chain Industrialisation Now That the AfCFTA Is Here

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The ways in which developing countries industrialised post the industrial revolution have drawn attention from scholars for decades. The 'Asian tigers' are a group of South-East Asian countries[1] that industrialised in the 1960s, by following an export-led growth path and supported by 'state capitalism' – attentive industrial and trade policy that created the environment for the targeted industries to flourish.

Thirty years later, Malaysia, Thailand, China, India and The Philippines industrialised in a similar export-led fashion, with the exception that the nature of their exports changed. Instead of using import-substitution policies and then export-led policies to gain a foothold in final goods markets, they integrated their production chains into those of developed countries, frequently within the supply chains of multinational corporations (MNCs). This was the beginning of the era of global value chains (GVCs) because now, production chains spanned continents and entire regions.

In the 21st century, economic integration within regions has increased, heavily driven by digitisation and the way it allows financial systems to be integrated, strengthens communications and information flows and creates a global marketplace via the internet. In this century, regional value chains (RVC) have grown on the back of the growth in the number of preferential trade areas and the ways they encourage cooperation, reciprocity and make markets accessible.

However, digitisation also promotes the cross-border integration of production in that it permits production management to be controlled centrally, but implemented in a decentralised way. Value chains either exist within a single entity or MNC, or within a

[1] These countries are South Korea, Singapore, Hong Kong and Taiwan.

group of entities that are connected by what the World Bank calls 'durable relationships'[2]. These durable relationships are necessitated the more complex and disaggregated is the production chain and the more specific the requirements of the 'lead firm' – the firm that owns the intellectual property of the product and is responsible for branding it. Were the relationships not durable, this would involve risks to entities in the value chain, especially those at the more upgraded end.

In Africa, where most exported production is primary or extractive, these issues are less important. However, if Africa is to upgrade its value chains, it needs to further digitise production processes and services. In addition, African enterprises need to develop durable relationships that go beyond supply contracts and extend to the establishment of foreign affiliates as well as merger and acquisition steps. Integration of value chains into larger, merged and digitally competent enterprises will allow scale economies to be exploited, technology to be taken up, unit costs to fall and competitiveness to improve.

The AfCFTA is the backdrop against which regional value chain (RVC) development could be promoted and extended. It appears clear then then that as Africa imminently moves towards free trade and greater economic integration in a number of spheres, attention should be placed on how value chain trade could be extended and deepened among state parties. These initiatives could address:

- The reversal of deindustrialisation in Africa: defined as a secularly-declining proportion of manufacturing value-added out of total value-added. Essentially, African economies have become more primary and services production based over the past three decades, preventing their progress in 'upgrading' their industrial activity. RVCs enable a degree of specialisation not possible if countries were to establish entire industries themselves – such as, for example, happened during the industrialisation of the South East Asian countries in the previous century. That model of industrialisation is now more difficult whereas the path offered through RVCs is still attainable by African countries.

- Low levels of intra-African trade flows, which are approximately 14% of total trade by African countries[3]. Despite being well integrated into global value chains – albeit as heavily forward-linked primary producers – African countries are not well integrated with one another. There

[2] World Bank, 2020. *World development report 2020: trading for development in the age of global value chains*. The World Bank, Washington, D.C.

[3] The intra-African trade proportion increased in the first pandemic year (2020) and then decreased in the second (2021). This figure (14.6%) is based on the last non-pandemic year's data (2019). These calculations are made on data sourced from ITC Trade Map, 2022. *Trade Map data portal*. https://trademap.org/

are many reasons for this, not least the low degree of complementarity of African economies. However, intra-African trade liberalisation under the AfCFTA, geographic proximity and active industrial and trade policy as well as private-public cooperation could change these patterns. Value chain relationships are well developed in economically similar countries in Europe and South East Asia, and the same potential exists among African economies. However, the role of the private sector and especially the buy-in of larger firms is crucial. This is because the most successful value chain configurations involve intra-firm, cross-border flows of value[4].

- Gender imbalances in enterprise ownership and leadership in African economies. By understanding the variation across sectors and sub-sectors, policy can target industrial sectors where training and capacitation aimed at female entrepreneurs and workers can assist in raising female participation and compensation rates. Female enterprise participation and ownership could be enhanced in tandem with the promotion of high-potential value chains[5].

The AfCFTA is not a panacea for all of Africa's developmental challenges. However, it holds the hope that out of a fragmented and poorly-integrated continent, something greater than the sum of the parts could arise. We need to promote African value chain industrialisation because it is the only remaining form of industrialisation that is available to developing economies in the 21st century. To achieve this, businesses and governments need to work together; policies need to be crafted in consultation with business leaders and investors and effective feedback loops from firms to regulatory authorities need to be established.

Finally, digitisation is essential; regional and global value chain leadership is made possible through connectivity and advanced decision making tools such as AI-driven supply chain management. Africa is industrialising late, granted, but it has the potential benefit of technology that could only be imagined by firms in the previous waves of industrialisation.

[4] UNCTAD 2015. *Global value chains and South-South trade*. Geneva: United Nations Conference on Trade and Development. https://unctad.org/system/files/official-document/gdsecidc2015d1_en.pdf

[5] See for example: Stuart, J. 2022. *Benefitting from the AfCFTA – The Case of Mauritius. tralac Trade Report*. Stellenbosch: tralac

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