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Value Chains in Africa: Upgrading, the AfCFTA and Trade Advantage

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Annual Conference
18 & 19 May 2023

"A Practical and Realistic Agenda for the AfCFTA"





Topics

- Trading under preferences to support cross-border value chains: what can the AfCFTA contribute? Two key sectors
- Driving value chain upgrading in Africa using export bans: the case of Zimbabwe
- Is there a connection between backward value chain involvement and trade advantage in manufacturing? Initial evidence from African countries

Why value chains for AfCFTA industrialization?

- Primary product exporting vs ‘upgrading’
- Africa experiencing premature deindustrialization for several decades
- The opportunity to participate in a production process, without necessarily possessing the expertise to design or innovate the final product, or to market it or provide customer service
- Specialisation is a key driver of industrialisation and drove the first industrial revolution
- VC participation needs to be based on existing strengths, rather than a wish list of ‘desirable’ industries

Trading under preferences to support cross-border value chains: what can the AfCFTA contribute? All sectors

- How to expand intra-African value chain trade? Specialisation within production chains will help to overcome the pattern of low complementarity between African economies
- When it comes to primary production, a lack of complementarity is not easily overcome, but advanced production ('upgraded) can be made to be complementary by design, as countries in Europe and South East Asia demonstrate

Trading under preferences to support cross-border value chains: what can the AfCFTA contribute? CT&L and agri-sector

- The broad CT&L and agro-processing sectors have been flagged by the AfCFTA Secretariat as one of a set of priority sectors for development under the preferences and integration imperatives under the AfCFTA
- Many African countries export these products but most of these exports are in relatively unprocessed form
- A smaller set of African countries export semi-processed and finished CT&L and agro-processed products, and a minority of this quantum is exported to other African countries
- Policy makers seek to change this pattern as the AfCFTA, and its promise of substantially liberalised trade and deeper intra-African economic integration is realised

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Originator
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South Africa
Egypt
Zambia
Nigeria
Madagascar
REC
SADC
Other
ECOWAS
EAC
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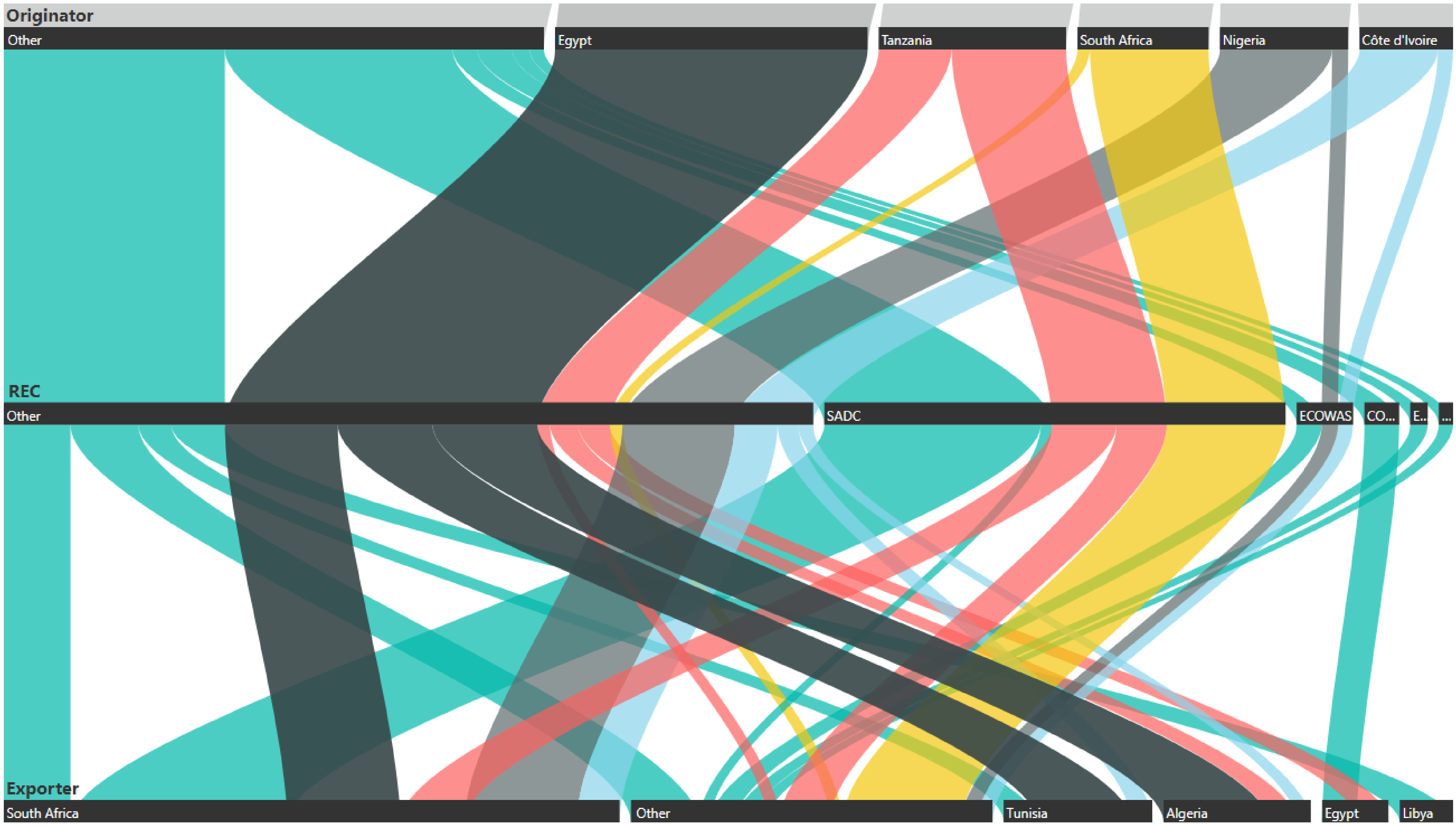
Exporter
South Africa
Other
Mauritius
Namibia
Tunisia
Malawi



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Tunisia
Algeria
Egypt
Libya

Trading under preferences to support cross-border value chains: what can the AfCFTA contribute? Both sectors

- Recent tralac research shows that a large component (70% of agri-sector and 46% of CT&L) value chain trade in Africa is dominated by flows between countries for which there is no FTA in place
- The balance of flows – in other FTAs - make up about 29% (agri-sector) and 54% (CT&L) of the total. This implies considerable potential to expand and deepen these value chain flows with the expected liberalisation under the AfCFTA. To release gains, the AfCFTA could address ‘liberalisation gaps’ like this in this sector and in others (such as agribusiness, where the ‘gap’ is in fact larger) through targeted tariff and NTB liberalization
- The potential of this non-FTA trade will, however, not necessarily translate into actual gains unless other non-tariff barriers (NTBs) can also be overcome. When it comes to NTBs, there are both ‘administered’ and ‘non-administered’ barriers that will need to be dealt with. ‘Administered’ barriers are regimes such as rules of origin (ROO), technical barriers to trade (TBT) and sanitary and phyto-sanitary (SPS) requirements.

Trading under preferences to support cross-border value chains: what can the AfCFTA contribute*? Both sectors

- The finessing of ROO negotiated under the AfCFTA will be critical, since there are always a wide range of options for ROO – from very strict requirements (requiring value to be wholly originating) to much more liberal rules (allowing a greater percentage of non-originating value)
- These ROO are currently under negotiation under the AfCFTA, as is the schedule of tariff liberalisation. Certain sub-sectors in the broader agricultural sector, such as sugar and tobacco, are very sensitive product categories and could be excluded from liberalisation (whether tariff or ROO related)
- 'Non-administered' barriers on the other hand, are those that arise from poor efficiency and maladministration at border posts, additional requirements, additional levies and charges, and corruption. In order to tackle these, the AU has put in place an online monitoring system to enable traders to report and follow up on encountered trade barriers (whether administered or not)

*Trudi Hartzenberg

Driving value chain upgrading in Africa using export bans: the case of Zimbabwe

- Developing countries that have industry based primarily on the extraction of raw materials and that are also dependent on the export of primary goods face an uphill battle in growing their manufacturing industries
- Zimbabwe, which is a major exporter of gold, platinum and diamonds, falls into this category. It announced in December 2022 that it would be imposing a ban on the export of raw lithium ore
- What Zimbabwe ostensibly hopes to achieve by this is to extend its lithium industry beyond just extraction and into the more lucrative 'downstream' phases of beneficiation into battery and energy storage projects. This is known in the parlance of value chain theory as 'upgrading'.

Driving value chain upgrading in Africa using export bans: the case of Zimbabwe

- Is there a precedent for this? Indonesia banned the export of nickel, bauxite and other ores between 2014 and 2016
- In 2017, Indonesia relaxed the restrictions but gave local producers five years to build and operate domestic smelters. This was clearly an admission that the initial ban had been too extreme and that not enough time had been allowed for adjustment
- Subsequently, work began on the construction of smelters, with 41 smelter projects in process by July 2019 (Reuters 2019). However, since the move is illegal under WTO rules, this prompted a dispute from the European Community, with Indonesia vowing to defend its action
- Indonesia claims that its export restrictions on nickel and bauxite have been effective in localising the value chain and has promised to act similarly with restrictions on copper and tin exports

Foreign value added (FVA) in exports (percentage, 2015) (Source: calculated from UNCTAD-Eora data)

	Mining			
Zimbabwe	48.2%			
Botswana	28.8%			
Mauritania	26.9%			
Rwanda	26.2%			
Sierra Leone	26.0%			
Burkina Faso	24.5%			
Guinea	20.2%			
DR Congo	17.3%			
Mali	16.7%			
Zambia	15.2%	Agri-Foods	Diversified	Fuels
Africa	22.4%	22.0%	26.0%	11.6%

- The table data tells us that there is a very high proportion of foreign value added per dollar of Zimbabwe's exports - more than double the continental average for other mining specialists, and also far exceeds the FVAs for the other export specialisation categories
- This means that Zimbabwe is generating far less value domestically, per export dollar, than other comparable African countries. There are reasons for this but it likely speaks to deficiencies in the business, policy, supply chain and infrastructure environment, as well as to a shortage of skills

Originators of Zimbabwe's export value by main sector (USD 000, 2017) (Source: calculated from UNCTAD-Eora data)

	Transport	Trade	Mining & quarrying	Electrical & machinery	Financial services	Other services	Agriculture	Fuels
South Africa	812.33	503.56	1070.26	319.84	341.59	234.70	354.28	308.11
China	136.06	184.72	39.50	245.79	76.69	82.89	61.34	119.35
Germany	72.69	62.11	5.98	108.38	23.40	64.57	7.30	18.55
Japan	44.39	133.30	0.55	47.65	30.22	75.42	5.53	9.52
Taiwan	25.89	46.29		33.81	36.74	43.04	9.39	18.81
United States	42.29	25.79	1.47	21.99	19.88	41.42	3.77	9.96
Tanzania	14.40	29.82	4.29	5.35	81.96	2.55	21.77	6.69
India	16.12	25.22	0.15	15.68	19.72	7.50	26.13	11.33
United Kingdom	18.66	16.57	0.50	37.09	11.82	25.87	1.59	11.62
Zambia	7.96	14.04	7.69	7.67	28.46	0.52	34.30	11.66
Thailand	11.79	28.25	0.82	8.41	5.30	10.07	14.34	5.78
Indonesia	11.40	21.13	2.12	6.11	6.22	9.78	12.10	18.92
France	6.73	8.43	0.88	13.60	5.87	19.86	3.02	2.17
Italy	6.95	11.73	0.65	22.08	6.00	19.09	2.63	0.92
Korea, Rep.	9.62	7.18		15.74	9.44	9.44	0.54	5.53

- Half of these sectors are services sectors and of the remaining, only ‘electrical and machinery’ represents manufacturing industry
- When cross-referencing this with the FVA data, we see the FVA in Zimbabwe’s electrical and machinery exports is 82.3%
- Therefore, the overwhelming majority of these manuf. exports are re-exports of merchandise imported

Driving value chain upgrading in Africa using export bans: the case of Zimbabwe

- From the data, Zimbabwe appears to have no significant manufacturing export industry, which is both evidence of, and also a driver of, the lack of beneficiation of raw materials (of the top 10 export sectors, tobacco is 'agro-processed' but not significant manufacturing)
- Correcting this requires more than export bans, it requires focused policy attention on the business and policy environment and attention to the concerns of investors. Currently, investors perceive Zimbabwe as one of the riskiest options in the world from the perspective of nationalisation risk .
- Zimbabwe needs to set a market friendly policy course and follow up with consistent action. Policy needs to be formulated in a cross-cutting way and not within silos

Driving value chain upgrading in Africa using export bans: the case of Zimbabwe

- No upgraded manufacturing can happen without skills. Skills are needed not just within the speciality itself but also within general business support and backward-linked services. These are IT and communication services, business services, financial services and logistics services
- While countries such as Indonesia have shown progress in moving up the value chain ladder using export-limiting policies, this was only after an adjustment period was implemented, with clear parameters for investors and a good degree of certainty about future income streams
- The policy can succeed, but it needs to be given time, during which investors and skilled people will be able to assess the extent of the state’s commitment to the new policy direction.

Is there a connection between backward value chain involvement and trade advantage in manufacturing?

- Various developing countries believe that they could improve their industrial and trade performance by increasing the extent of domestic participation in the supply chain of their exports
- China has already started down this route and two African examples are Zimbabwe and Namibia, who wish to domesticate more of the value chain in various of their metal ore export industries
- There are certainly benefits to ‘upgrading’ production from basic extraction to product beneficiation, but simply aiming to decrease backward participation in foreign value chains in favour of domestic participation may have no discernible benefits
- This has been established in other research, eg Durongkaveroj (2022) finds that, for Thailand, no benefits necessarily accrue from increasing domestic value added, while on the other hand, there is evidence of benefits of enhanced participation in global value chains (GVCs)

FVA for top 5 African countries (plus Djibouti) by manufacturing FVA, by aggregate sector (2015) (Source calc from UNCTAD-Eora)

	Agri-food	Extractive	Manufacturing	Services
Tanzania	49%	62%	76%	46%
Zimbabwe	45%	60%	61%	43%
Eswatini	27%	61%	49%	39%
Lesotho	36%	37%	45%	48%
São Tomé and Principe	18%	40%	44%	44%
Djibouti	25%	28%	33%	26%
Africa averages	15.0%	22.1%	25.7%	22.2%

- The table shows the foreign value added (FVA) content of aggregate export sectors for the top 5 African countries by FVA, plus Djibouti
- Ranked by manufacturing FVA

RCA for top 5 African countries (plus Djibouti) by manufacturing FVA, by aggregate sector (2011-2021) (Source calc from UNCTAD)

	Agri-food	Extractive	Manufacturing	Services
Tanzania	11.71	3.43	1.28	0.00
Zimbabwe	30.26	10.32	1.79	2.04
Eswatini	1.89	2.84	1.18	0.00
Lesotho	2.27	5.74	2.28	0.11
São Tomé & Principe	12.85	0.72	1.28	
Djibouti	4.64	7.72	1.50	

- The table shows the aggregate Revealed Comparative Advantage (RCA) of aggregate export sectors for the top 5 African countries by FVA, plus Djibouti
- Same ranking as previous slide's table (ranked by manufacturing FVA)

Is there a connection between backward value chain involvement and trade advantage in manufacturing?

- The data shows a relationship between the extent of FVA in manufacturing and the manufacturing export involvement of the same countries
- Any RCA figure above 1 represents a ‘tradable’ sector and any below 1 a ‘non-tradable' sector. However, these African exporting countries are not just successful exporters of manufacturing goods, they are also for the most part successful at exporting agri-food and extractive products as well (except the SIDS São Tomé & Principe in the case of extractives)
- The opposite is not true, ie, successful agri-food exporters such as Namibia, Cameroon, The Gambia and Malawi do not have tradable manufacturing sectors (data not shown)
- It is possible that the countries that are successful at exporting manufactures, with above average involvement in global value chains, have acquired skills, technology and networks that have enabled them to succeed at other exporting industries as well.
- In summary, while it is certainly not a hard and fast rule, FVA and RCA data for Africa presented here does contain evidence that greater involvement in manufacturing value chains leads to greater manufacturing export success

End – Thank You

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