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Value Chains Can Drive, and be Driven by, the AfCFTA

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Regional Value Chains (RVCs) – a localised form of a global value chain (GVC) – are a form of trade that involves a chain of intermediate products and services value addition from multiple contributing countries into a final product. The ‘regional’ variant refers to the component of the value chain that exists among countries confined to a specific geographical region, such as Africa or South-East Asia. These countries may collectively produce the final product, from raw materials sourced elsewhere or within the region. Equally, the countries in the RVC may together produce an unfinished product that is finished and finally exported by a country in a different region.

In the case of Africa, most of its value chain participation is ‘forward’ from raw materials extraction to the exportation to other regions, where additional beneficiation takes place. It is in the ‘downstream’ beneficiation, that takes place beyond Africa’s borders, that the bulk of value addition takes place and therefore the bulk of the benefit – to growth, development, upskilling, employment and diversification – is enjoyed. For this reason, and in the context of Africa’s industrialisation challenges, there exists an imperative for African industries to ‘upgrade’[1] from their current status as raw materials producers.

In order to upgrade, firstly the potential of the sector/industry needs to be established. This involves leveraging existing strengths in terms of resource, labour, capital and infrastructure endowments. Where RVCs are nascent or barely established, an analysis of the *potential* for value chains development is required, which would draw on existing industrial, trade and enterprise data.

[1] Upgrading’ refers to the process of graduating to downstream phases in the value chain. See Kaplinksy, R. and M. Morris. (2001). *A handbook for value chain research*. Brighton: Institute for Development Studies

‘Potential’ value chain trade is that which could be realised as a result of the liberalisation of merchandise trade under the AfCFTA, in conjunction with other continental initiatives to boost intra-African trade and encourage greater integration of production. This will involve extending and deepening existing value chains as well as upgrading current value chain production and accessing new markets for final goods in Africa and the rest of the world.

Currently, African value chains are dominated by extractive industries. Table 1 ranks Africa’s most important value chains by total GVC participation (final column). As is evident, the total is dominated by mining and quarrying, which is also heavily forward-linked, meaning that other countries (most of them not in Africa), add additional value to the materials before a final product is produced. Being primarily forward-linked in your dominant GVC trade sector is not conducive to manufacturing industrialisation, the generation of high value-added production and development of technology and skills.

Table 1: GVC participation by sector: Africa, ranked (2015, USDm)

Sector, including services	Backward	Forward	Backward/ Forward	GVC total participation
Mining/quarrying	10 164	54 054	19%	64 217
Petrochem/minerals	8 598	9 514	90%	18 112
Metal products	4 348	9 286	47%	13 634
Electronics/machinery	4 791	4 106	117%	8 898
Transport	2 949	5 927	50%	8 876
Agriculture	1 893	6 648	28%	8 541
Textiles/clothing	4 014	2 932	137%	6 947
Food/beverages	2 930	2 969	99%	5 899
Finance/business	801	2 911	28%	3 712
Wood/paper	1 368	2 189	62%	3 556
Transport equipment	2 686	770	349%	3 457
Hotels/restaurants	748	1 510	50%	2 257
Wholesale trade	395	1 859	21%	2 254
Post/telecom	437	1 274	34%	1 711
Recycling	735	665	111%	1 399
Other manufacturing	991	297	333%	1 288
Education/health	432	749	58%	1 181

Sector, including services	Backward	Forward	Backward/ Forward	GVC total participation
Retail trade	241	668	36%	910
Construction	358	308	116%	666
Fishing	197	264	75%	461
Public administration	184	128	143%	312
Maintenance/repair	126	149	85%	275
Private households	135	108	126%	243
Electricity/gas/water	55	51	107%	106
Other activities	42	12	359%	54

Source: Author's calculations based on data from World Bank, 2020. *World development report 2020: trading for development in the age of global value chains*. The World Bank, Washington, D.C.

However, the patterns of GVC trade in mining and quarrying are not easy to reverse. The main buyer of African mining and quarrying output is China[2], a global manufacturing giant with a profound cost and economies of scale advantage. Instead, a more viable approach would be to focus on industries where there is potential to establish continental trade connections and upgrade existing production.

The agribusiness value chain, which overlaps with the agriculture and the food/beverage value chain data in Table 1 is in net, more balanced in terms of forward and backward integration than mining and quarrying. This means that a greater proportion of the value addition in creating a final product takes place on the continent. Unlike sectors such as 'electronic/machinery' and 'transport equipment', which rely on inputs imported from the rest of the world, the agribusiness sector uses domestically-produced inputs.

On the other hand, the clothing & textiles value chain, which is the primary component of the broader clothing, textiles & leather (CT&L) sector, is more backward-linked than forward, implying a large part of the value addition in creating a final product takes place on the continent. As with the agribusiness sector, the CT&L sector uses domestically-produced inputs. For these and other reasons, these two sectors have been identified for targeted promotion by the AfCFTA Secretariat.[3]

Many African countries export CT&L related products but most of these exports are in relatively unprocessed form. A smaller set of African countries export semi-processed and finished CT&L

[2] ITC Trade Map, 2022. *Trade Map data portal*. https://trademap.org/

[3] AfCFTA Secretariat, 2021. *Which value chains?* The Futures Report 2021

products, and a minority of this quantum is exported to other African countries. It is this pattern that policy makers seek to change as the AfCFTA, and its promise of substantially liberalised trade and deeper intra-African economic integration is realised.

Current tralac research has revealed some interesting patterns in the continental value chains in these two sectors. A large component (46%) of CT&L value chain trade in Africa is made up of flows between countries for which there is no FTA in place[4]. This pattern is even more pronounced for the agribusiness sector – its 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 only about 29% of the total.[5] This implies considerable potential to expand and deepen these two sector's value chain flows with the expected liberalisation under the AfCFTA.

For the CT&L sector, there is a roughly negative relationship between the magnitude of a country's total originating value and its tendency to export African-originating value. In other words, African originated value is exported by other African countries in value chains in CT&L, but mostly in small amounts. This is interesting because it means scale economies have not come into play and also possibly that these are niche or localised markets.

For the agribusiness sector, few African originators of agricultural-related value have their value exported finally by other African countries, which indicates a low degree of current value chain intensity and therefore the potential to develop this further.

The AfCFTA is about trade, but also about so much more. If tariff lines are liberalised in line with commitments, and if traditionally disputed sectors such as clothing & textiles and sugar products, for example, are not relegated to the list of exclusions, the agreement could drive and be driven by RVC trade. 'Drive' – because liberalisation is the first requirement for economic integration; 'be driven by' because value chain industrialisation is the only remaining form of manufacturing industrialisation available to developing countries in the 21st Century. In the end, the AfCFTA will not prosper unless there are clear benefits to individual countries, and the promise of these benefits will drive deeper levels of commitment and cooperation. What is not possible for individual African countries in the 21st

[4] Stuart, J. 2022. *The Potential of the CT&L Regional Value Chain under the AfCFTA*. Forthcoming tralac Trade Report. Stellenbosch: tralac

[5] Stuart, J. 2022. *The Potential of the Agribusiness Regional Value Chain under the AfCFTA*. Forthcoming tralac Trade Report. Stellenbosch: tralac

Century, is possible for an integrated bloc. The EU and the ASEAN have proven this – similar economies need not be in enmity if they are able to visualise their joint destiny and make what sacrifices, policy alignments and investments are required to achieve it.

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