



tralac Annual Conference

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Session: AfCFTA as a Framework for Africa's Industrialisation

John Stuart, tralac Associate

Topics

- Why value chains for AfCFTA industrialization?
- How could the AfCFTA facilitate regional value chain development?
- The importance of human capital
- Which value chains – focus on agri/agri-processing and clothing & textiles (C&T)
- Gendered aspects – opportunities for niche, digitally-driven businesses created by women
- Near future concerns – the 4IR



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
 - Earlier this week, newly elected Lesotho President Sam Matekane – a successful businessman – declared he wanted Lesotho to have a pharmaceuticals industry
 - However, Lesotho currently exports diamonds (32%) and C&T (40%). Pharmaceuticals are their 13th ranked import
 - A small country like Lesotho would have to have export markets for pharmaceuticals in order to achieve some scale economies
 - Manufacturing technology in C&T is not proximate to pharma, whereas chemicals manufacturing would be



How could the AfCFTA facilitate regional vc development? 1

- ‘Continental/regional industrial policy’: recognizing governments’ limited roles in *facilitating* industrialization vs ‘communism’ - national central planning
- Since value chain participation is essentially the export of value, which is further beneficiated into a final product by another country, how easily trade takes place is an important consideration
- Extra-Africa GVC participation is primarily forward-linked, where upgrading is much more challenging (East Asian importers have increased in importance). The AfCFTA, if it can accelerate intra-African trade, could enable upgrading in intra-African value chains
- Other continental initiatives also have the potential to promote intra-African value chains:
 - Specialised Technical Committee of the Ministers of Trade, Industry and Minerals
 - Summit on Africa’s Industrialisation and Economic Diversification
 - Programme for Infrastructure Development in Africa (PIDA)



How could the AfCFTA facilitate regional vc development? 2

- The dynamism of African economies means there is real market growth potential in various sectors
- Youthful population, urbanization, 'shortening of distances' due to digital information availability, deepening intra-African air passenger ties and importantly, digital platforms that help to make markets
- Africa imports beneficiated food and C&T products from countries it exports unbeneficiated materials to. Opportunities to 'close the loop' if upgrading can take place in intra-African chains
- Requirements:
 - Investment into regional infrastructure: road and rail links
 - Reduce border friction
 - Market-making portals such as tragoa.com
 - Human capital – see next slide



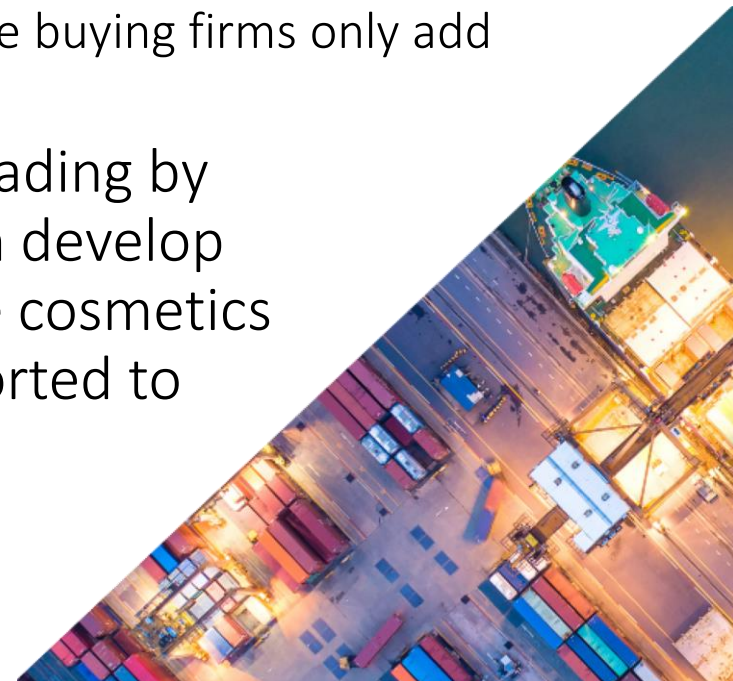
The importance of human capital

- You cannot upgrade production without ‘upgraded’ human capital. Entrepreneurs may be ‘seat of the pants’ people, but industries such as pharmaceuticals require tertiary-educated engineers and scientists
- Focus on education, training, mentoring, MSME support, angel investment
- Africa exports too much talent to the rest of the world, not to return
- Skilled individuals want to do more than ‘survive’, they want to prosper and work in attractive locations with security, good housing options, good infrastructure, good medical services, democratic governments with strong institutions
- For example, Cape Town and Kigali are two African cities striving to become attractive to investors and skilled individuals



Which value chains?

- AfCFTA Secretariat has identified several sectors for vc development, including agri/agro-processing and C&T
- Each of these have their own specific requirements: agri vc is simpler and more linear
- C&T value chain is *buyer-driven* could be one of two types:
 - Assembly: intermediate firms only assemble the garment, production is separate from design and marketing
 - 'Full package': intermediate firms design and manufacture the items, the buying firms only add branding
- East Asian C&T are very dominant and present a barrier to upgrading by African textiles producers. However, intra-African producers can develop products that suit buying patterns on the continent, such as the cosmetics and beauty products developed in South Africa and widely exported to other African countries



Extra-Africa C&T

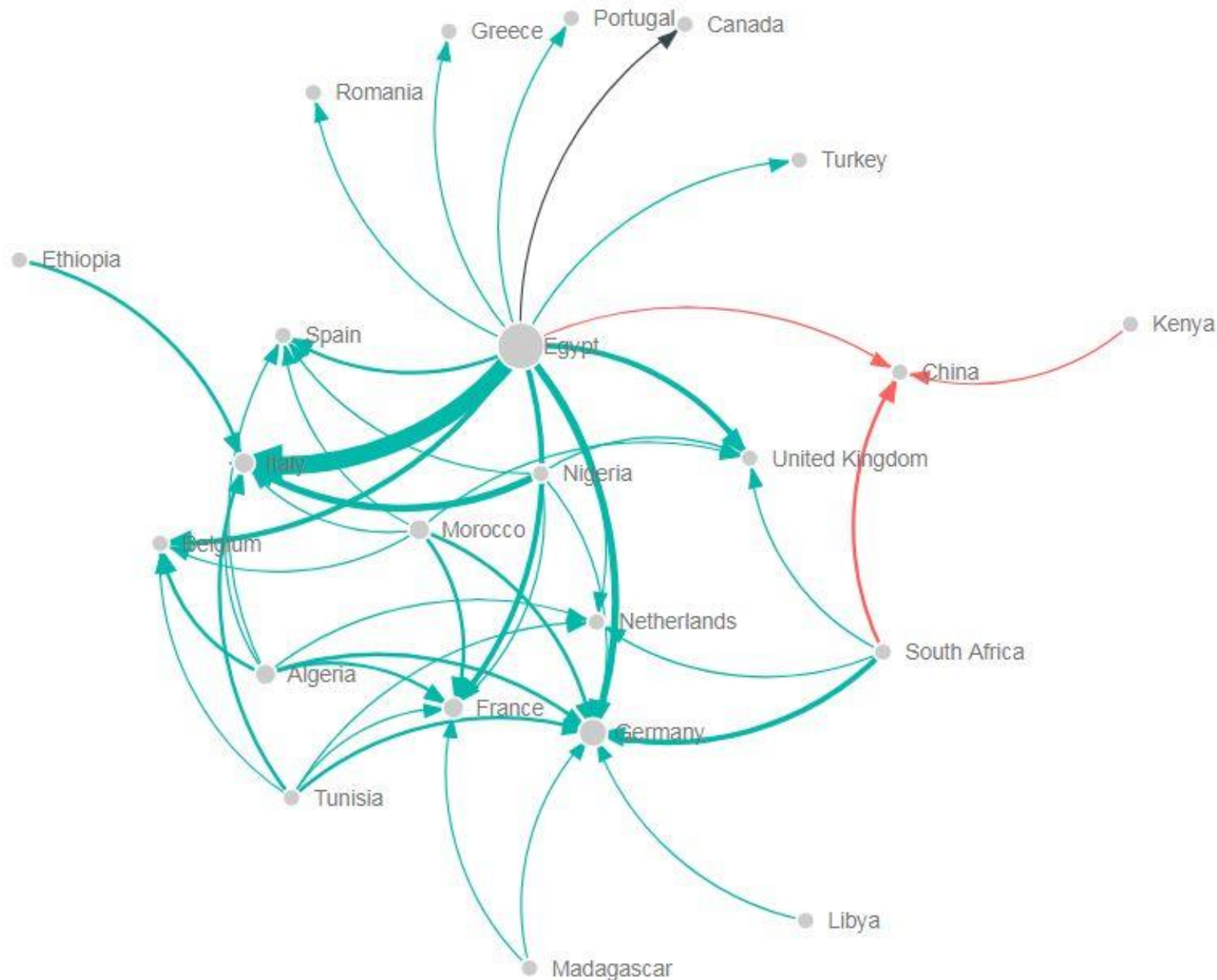
- The figure shows the main flows of C&T intermediate value from Africa to the ROW
- Dominated by N African producers, to Europe

Green – Europe

Red – East Asia

Black – North America

Source: Author's construction based on UNCTAD-Eora



Intra--Africa C&T

- The figure shows the main intra-African flows of C&T intermediate value
- Dominated by S African producers, to SADC

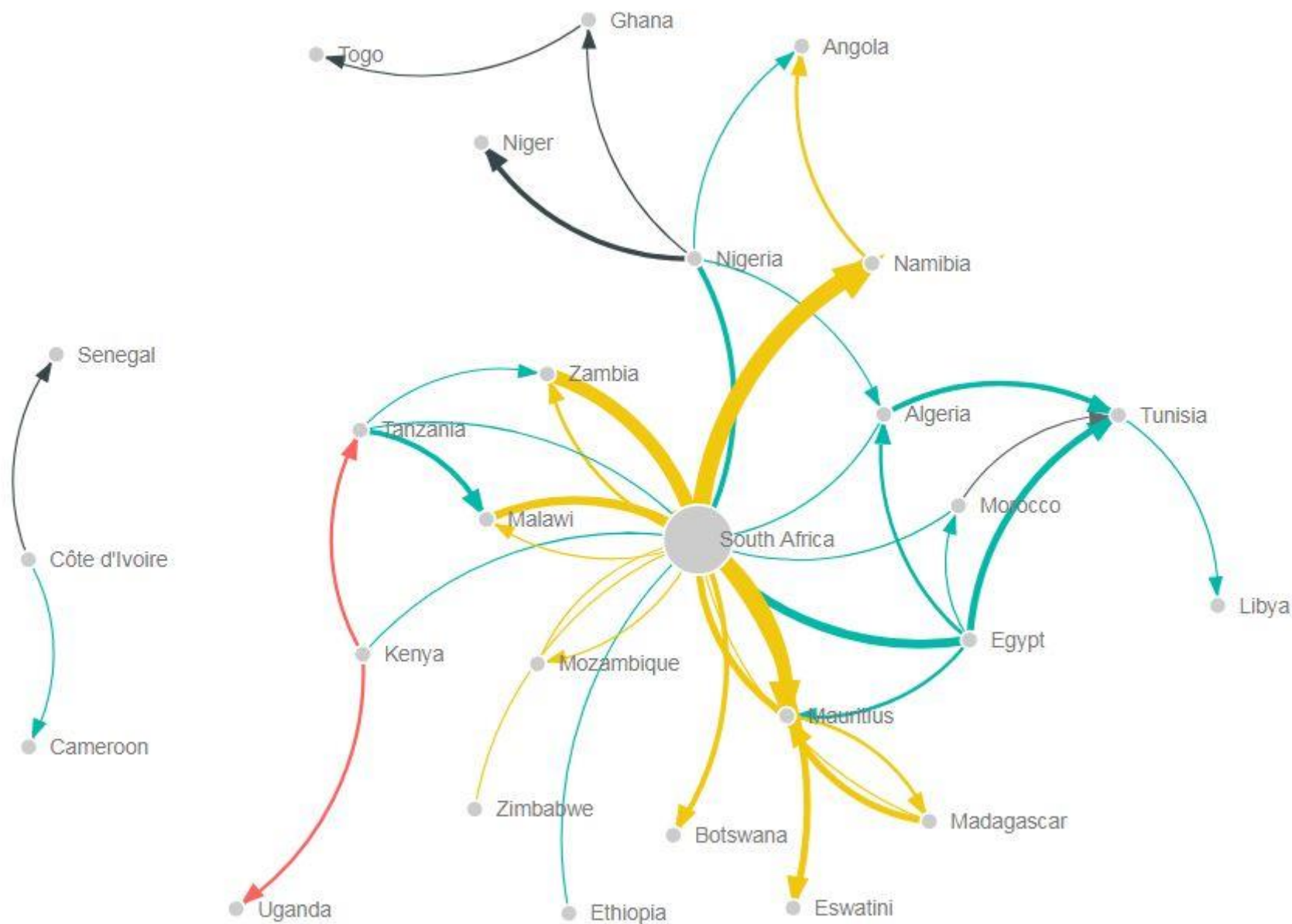
Yellow – SADC

Red – EAC

Black – ECOWAS

Green - other

Source: Author's construction based on UNCTAD-Eora



Gendered aspects – opportunities for niche, digitally-driven businesses created by women

- The existence of large firms and MNCs with unit cost advantages does not necessarily limit business opportunities. Niche businesses occupy the ‘long tail’ of potential suppliers in markets for niche products that can’t be economically supplied by large producers, or where an ‘exclusive’ brand is desired
- Fashion and clothing is one area where these businesses can be established
- In Cape Town South Africa, three examples:
 - Akina: bio-friendly high quality clothing such as swimwear and beach wear. Shipped locally
 - Lady BeeBee: leather hand bags. Shipped internationally
 - Silly Oak: jewelry, shipped locally
- These business all have in common
 - Created and run by woman entrepreneurs
 - Utilise digital platforms for marketing and sales
 - Sale of final product: backward-linked to domestic value chains



Near future concerns – the 4IR

- The ‘fourth industrial revolution’ (4IR) will be driven not so much by human capital but by ‘machine capital’
- AI machines have already been created that can write books and give legal advice
- This technology threatens to widen the gap between those who possess it and those who don’t
- In the end, technology is curated by humans – underscores the need to invest in talent and expertise on the continent, as well (of course) as digital connectivity
- AI in manufacturing may even be a boon for African manufacturing, in that it could help ‘leapfrog’ existing constraints to industrialization (similar to how mobile leapfrogged fixed-line in Africa)
- Potential to use AI in manufacturing to engineer African-specific solutions by Africans



Thank you!
john.stuart77@gmail.com

