Africa's interregional trade and regional value chain integration: facts and considerations for future policy action

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Introduction

In recent years, Africa has experienced substantial progress, with average annual GDP growth of 4.1% from 2000 to 2016 and 3.2% in 2018. However, such growth has been uneven and lacks the distributive and inclusive growth dimensions. According to UNECA (2020), COVID-19 has further exposed the vulnerability of African economies, on account of their limited economic diversification and integration, with GDP projected to slow down to 1.8 % in 2020 from the earlier projections of 3.2 % in the best-case scenario or a contraction of 2.6 % in the worst case, threatening livelihoods for 27 million people.

To boost Africa's economic growth, it needs to activate industry transformation within states and across borders while managing its resources carefully. In this light, industrial development policies in Africa need re-examination and re-alignment responding to changing conditions, including the advent of the African Continental Free Trade Area (AfCFTA) that supplies an internal market of US$3 trillion with 1.2 billion consumers and the potential for developing regional industrial value chains.

Regional value chains (RVCs) can be viewed as production systems that reach from input provision to commercialization going beyond national borders to exploit existing competencies and complementarities within a region or the continent, such as differentiated labour costs, productive capabilities and natural resources endowment. RVCs enable sequential value addition across country borders and growth corridors; primary production, value addition, by-product utilization and commercialization are spatially separated according to local demand and competitive advantages in firm networks.

The development of RVCs constitutes a tool for rebooting industry development in Africa, building the requisite industrial capacity for African integration beyond colonial and post-colonial trade imbalances. RVC development can also be seen as a part of the bigger plan to increase manufacturing value-added on the continent, increase the consumption of African products, boost competitiveness and exports and grow industries. This can further help in producing a larger share of goods on the continent that otherwise are imported. RVCs and integration among its regional economic commissions help Africa industrialize – and counterbalance the many uncertainties and challenges in global competition.
Reviewing evidence provided by various trade and industry think tanks\(^1\) in Africa and beyond since 2010 leads to the conclusion that there is a vast potential for RVC development on the continent. However, what is still missing is guidance on setting up concrete RVC upgrading programmes. There is still a big task to be accomplished in the translation of well-studied macro data on trade integration and global value chains (GVCs) into meaningful policy action for industrial development on the ground.

This paper provides evidence from international statistics on the level of regional value chain integration in Africa and its participation in global trade (both for total trade and manufacturing trade in particular). Section 1 discusses Africa's role in world trade; section 2 looks at inner-African trade; section 3 discusses Africa's integration into global manufacturing value chains, while section 4 looks at inner-African value chains. Sections 5-7 provide some conclusions on the need for policy action required for further regional integration. Section 8 concludes with some considerations for the road ahead in regional value chain development.

1. Africa lacks integration in world trade

This section provides information on worldwide African trade compared to other continents. Africa is less integrated into international trade than different continents such as Europa, Asia or North America. Figure 1 shows that while Europe and Asia – and to a lesser extent North America – increased their worldwide trade in the last 20 years. This is consistent with other analyses that also argue for limited growth in Africa compared to the rest of the world. Afreximbank (2019), for example, finds that Africa only accounted for 2.6% of global trade in 2018.

**Figure 1: World merchandise trade of continents**

Not only is Africa trading less with the world than other continents, but a handful of countries also performs the majority of trade. Among the largest exporters (Figure 2) in Africa, we find countries with large populations and ample resource endowments (oil, minerals, agriculture).\(^2\)

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\(^1\) The most recent studies have been done by Tralac, IMF, UNCTAD, International Growth Centre, Brookings Institute, UNIDO, UNECA, IMF, FAO, World Bank, OECD and WEF covering various products and regions on the continent.

\(^2\) The data is gathered from the 5\(^{th}\) revision of the COMTRADE Broad Economic Categories (BEC) dataset. The set for which detailed trade data was available covers 36 countries out of 55 member states of the African Union.
Figure 2: Total country trade, 2018.

Figure 3: Total African world trade by ISIC activity, 2018.

Figure 3 breaks down the composition of traded goods (ISIC 2-digit). We find that exports in many countries are dominated by agriculture or low-tech manufacturing goods while the majority of imports seem to be food, coke, petrol, chemicals, machinery and vehicles.
2. African countries lack integration in regional and continental trade

What does inner African trade look like? We find that compared to Africa's worldwide trade, inner-African trade increased much less over the last two decades (Error! Reference source not found.). This is confirmed by Afreximbank (2019), which finds that inner-African trade increased less than Africa's worldwide trade over the last 20 years.

Figure 4: Overall African trade with the World and the Continent.

![Graph](image)

Also, we find that extra-African trade dominates; in 2019, intra-African exports were only 16% of total exports, imports were only 12% of total imports (see Figure 5 and WEF, 2021). On this low level, trade between African economies is likely insufficient to accelerate economic growth further. However, this also shows the potential of growth of inner-continental trade flows.

Figure 5: Intra-continental trade as % of total trade with the world, 2019.

![Bar chart](image)

Source: *ITC trade map*, based on UN COMTRADE, 2020
Table 1 shows the share of inter-regional trade in Africa in 2018, which makes clear that Africa also lags behind much of the world in integration among its regional economic communities, including the Economic Community of West African States (ECOWAS), East African Community (EAC), Southern African Development Community (SADC), Economic Community of Central African States (ECCAS) and the Arab Maghreb Union (AMU/UMA).

<table>
<thead>
<tr>
<th>Trade group</th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Intra-group</td>
<td>Rest of the World</td>
</tr>
<tr>
<td>Southern</td>
<td>17.02%</td>
<td>82.98%</td>
</tr>
<tr>
<td>Central</td>
<td>0.54%</td>
<td>99.46%</td>
</tr>
<tr>
<td>Western</td>
<td>8.01%</td>
<td>91.99%</td>
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<tr>
<td>Northern</td>
<td>2.48%</td>
<td>97.52%</td>
</tr>
<tr>
<td>Eastern</td>
<td>17.30%</td>
<td>82.70%</td>
</tr>
<tr>
<td>ECCAS</td>
<td>1.12%</td>
<td>98.88%</td>
</tr>
<tr>
<td>ECOWAS</td>
<td>8.01%</td>
<td>91.99%</td>
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<tr>
<td>SADC</td>
<td>29.24%</td>
<td>70.76%</td>
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<tr>
<td>EAC</td>
<td>26.17%</td>
<td>73.83%</td>
</tr>
<tr>
<td>AMU</td>
<td>1.27%</td>
<td>98.73%</td>
</tr>
</tbody>
</table>

Note: Based on UN COMTRADE HS. Trade groups are either defined based on the African Union or by Regional Economic Communities. Rwanda and Tanzania are both part of two economic communities. For this table, they are counted towards both.

Figure 6 displays absolute values corresponding to intra-group exports in Table 1. We find, strikingly, that trade between Africa’s main trade blocks does not even extend 1 billion USD in half of the cases.
Further breaking down the information of Figure 6 to the country level, we find that bilateral trade is heavily concentrated on a few exporters (Figure 7). Most country-to-country trade in Africa is performed by South Africa, DRC, Nigeria, Egypt, Zimbabwe, Ghana, Namibia and Angola.

**Figure 7: Country-to-country trade. Africa 2018**

![Country-to-country trade matrix for Africa 2018](image)

Figure 8 shows the inner-African trade of goods by industry. Some goods (e.g., Petrol, Gas, Chemicals) are exported mainly by a few countries while imports are more equal across countries.
However, we must also consider limitations in the statistical data we use for the above analysis. Brookings (2021), for example, argues that the extent of the inner-African trade is higher than the numbers from statistics imply. First, they argue that intra-trade is also very much skewed and dependent on single countries for some other regional blocks, which increases the numbers. Second, it is few larger African economies such as Egypt or South Africa that lower the average as they are very much connected to the rest of the world. Third, the dependence and importance of commodity exports to outside Africa further decreases the numbers and might underappreciate the potential of the inner-continental market. Fourth, informal trade is not measured, but estimates for some countries indicate that informal trade is sometimes 75% of formal trade. On average, inner-African trade seems to be underreported by 11%-40%.
3. African countries show integration into worldwide GVC trade

Further to the lack of integration in traditional trade\(^3\) – be it intraregional, intracontinental or international - Africa also lacks behind regarding its integration in global value chains (see also World Bank, 2019).\(^4\)

Compared to more traditional generic trade, GVC trade flows are part of a coordinated production network where some form of importer-exporter relationship allows for the trade of goods of higher specificity beyond that of generic commodities. In the extreme, a value chain is dominated by a few ‘lead’ firms that coordinate and manage all parts of the production and trade flows. GVC trade has been growing worldwide over the last decades due to the advances in information and transportation technologies and falling trade barriers. Consequently, firms can unbundle production into tasks performed at different locations to take advantage of varying factor costs. Such production fragmentation means that intermediate goods and services cross borders several times along the chain. Hence the final products potentially contain parts from many and very different origins.

Sometimes participating in GVCs can be viewed as a fast track to industrialization. Along with other scholars, Gereffi and Sturgeon (2013) or Baldwin (2012) argue that internationally fragmented production allows emerging economies to join existing supply chains instead of building them. With the increased sophistication of goods, entering a supply chain removes the need to gain comparative advantage domestically in a broad range of production stages. Done wrong, GVC participation could, however, lead to firms getting stuck in low value-added stages of production or in the inability to upgrade products or production processes.

In the present and following section, we position Africa regarding its global and regional (African) value chain participation. The analysis focuses on goods from manufacturing industries. GVC participation measures the share of trade that comprises goods most likely produced according to specific instructions for a specific purpose. These are especially many forms of intermediate goods as well as machinery.\(^5\)

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\(^3\) Traditional trade comprises exports of goods and services that are produced in one country and absorbed in the destination or trade of goods where no coordination in production and trade is necessary as goods are more generic and easily tradeable on the (world) market.

\(^4\) The participation in global value chains measured through forward linkages (where the country provides inputs into exports of other countries) or through backward linkages (where the country imports intermediate products to be used in its exports). Backward linkages are important to source foreign inputs which is particularly advantageous if the inputs required for production are either not available locally or available but deficient in some aspects (e.g. quantity, quality and price). Forward linkages show that the exports are important for other countries to add value and export.

\(^5\) While the academic literature measures GVC participation differently (value-added trade based on multi-regional input-output tables) than the current paper, the lack of up-to-date data for African countries means this kind of analysis can be only complementary for the purpose of this report. While all value chains start with raw materials, they are mostly generic by definition and thus do not fit the GVC trade definition used here. For a macro analysis they are not counted towards GVC trade flows. A similar argument is made for consumer goods. They might represent the last step in a value chain but many exported consumer goods are not. Similar to primary raw materials, they are therefore excluded in the macro analysis of value chain participation when using gross trade data. However, this must be understood as an approximation as, for example, goods that are produced in value chains could be imported by an African country without the importer being part of this particular value chain. If a car mechanic imports a car part (all of which are produced in value chains) and uses it for repair, this does not make them part of the vehicle value chain. On the export side, on the other hand, it is more likely that the exported goods come from firms that are actually part of value chains.
In 2018, using UN COMTRADE BEC rev. 5 data based on 38 African countries, we find that Africa as a continent had 25% forward (export) participation and 32.8% backward (import) participation. This means that 25% and 32.8% of all worldwide manufacturing exports and imports, respectively, have been specific intermediate goods and capital goods. The remaining traded manufacturing goods were either primary goods or generic intermediates. If imported GVC goods are processed in an African country and then exported further to other partners in the value chain, we talk about "backward linkages." If these partners use these goods in their exports, we talk about "forward linkages." The goods identified as "GVC-goods" are most likely part of such value chains.

Figure 9: Manufacturing GVC participation, African regions, 2018

shows the values for these indicators for the A.U. regions. Except for the Central region, regions seem to import a higher share of manufacturing goods that are GVC related than they export.
Does this mean African regions import more manufacturing GVC-related goods than they export in absolute values? Figure 10 shows the breakdown of the above by 2-digit ISIC activity and technological classification for all manufacturing goods. To note, the figure does not show trade related to primary manufactured goods (3/4 of exports) and most final consumption goods (2/3 of imports).

**Figure 9: Manufacturing GVC participation, African regions, 2018**

**Figure 10: Manufacturing GVC participation per manufacturing sector, Africa 2018**
Figure 10 allows for three observations regarding the trade of manufactured goods that were most likely produced in GVCs.

- The numbers are highest for goods from medium-high tech sectors. Many goods in medium-high tech subsectors are actually produced as part of global value chains. They are often produced to very specific requirements by firms in high-income countries that use global value chains as their production structure. As such, it is maybe not surprising that numbers in these industries are high. However, they are higher in relative and absolute terms, which shows some participation of African firms in the manufacturing of medium-high tech. If these value-chains are global or indeed regional will be shown in the next chapter.

- Absolute values are relatively low. As mentioned before, even given the low level of trade in total, the fact that numbers in Figure 10 are the sum of the entire continent, there seems to be still much room to improve export capacity, especially in terms of GVC participation.

- Without exception, all industries show indeed higher values of GVC-related imports than GVC-related exports. Some of these goods are simply used for purely domestic production and consumption, or they are used to produce more generic consumer export goods, both of which would not show up as GVC exports. However, since the goods represented in Figure 10 are relatively specific by definition, the higher imports can be to some extent interpreted as successful use and adoption of technology embodied in these goods.

When using different data that does not measure detailed gross trade of goods such as above but measures trade in value-added, we might come to the conclusion that GVC participation is indeed a bit smaller than what gross numbers suggest. Focusing on Africa’s manufacturing exports in 2015 (newest data), Figure 11 shows that about 18% of the exported value-added did not originate in Africa and was imported ("backward linkages") while about 15% of Africa’s manufacturing exports were further processed and exported by non-African firms ("forward linkages"). These numbers should be viewed as the lower bound of manufacturing GVC participation as there are also inner-African trade flows that are part of larger GVCs and where value-added is traded across borders. The World Bank (2021) also uses UNCTAD Eora data and finds about 30% forward linkages and 20% backward linkages in Sub-Saharan Africa.

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6 The data misses LDC-to-LDC trade and also does not measure informal manufacturing trade. To some extent this might explain the higher value of GVC trade in medium-high tech goods.

7 Given the nature of the data used, we cannot clearly relate every import to its use and user. This means not every import of GVC-related goods are done by African firms that are actually in a global or regional value chain.

8 The majority of this paper uses gross trade data from UN COMTRADE BEC revision 5 in order to capture detailed trade flows that are relatively recent. Value-added trade data, on the other hand, tries to measure the origin and destination of value-added instead of gross values. The advantage is that imports can be linked to exports and that this data better captures the geography of value capture. The disadvantages include that data is relatively old (2015) for African countries, that data ultimately is constructed with input-output modelling instead of observed, and therefore cannot offer the same level of detail.
Overall, we find that, given Africa's total worldwide trade, GVC manufacturing participation is relatively low in absolute terms but high in relative terms. Africa takes part in global value chains, but there is much room for participating stronger in GVCs (see also World Bank, 2019 and 2021).

Using gross trade data, we show that medium and medium-high tech industries show higher GVC participation than low-tech industries. This might also be due to goods in these industries being more likely produced in the context of a coordinated GVC than goods from low-tech industries.

Given the importance of exports of raw material that are further processed, GVC participation rates are even higher for those and it makes sense that Africa as a whole shows stronger forward linkages as it tends to be further upstream in many value chains.⁹

4. African countries lack integration in "regional "V.C. trade

The following repeats the analysis of the former chapter but includes only manufacturing trade flows within the continent, thus, regional value chains (RVC). They can be, of course, also part of global value chains. Taking total inner-African manufacturing trade as a basis, RVC exports were 34.5% and imports 25.2% in 2018. This means that of all inner-African manufacturing trade, a third of imports and a quarter of exports were likely goods that are

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⁹ A difference between the present paper and analyses by the World Bank (2021) is that manufactured GVC goods in gross trade data in the present paper do not include any form of primary manufactures or products from mining industries. The reason for that is that these goods are very generic and could be also traded on international markets without the need to be integrated in coordinated value chains.
part of coordinated value chains, roughly the opposite to total African GVC trade in manufacturing.

Why would imports in total trade be more important than in RVC trade? We explained above that it is difficult to connect imports to exports via such trade data. However, there is reason to believe that African countries seem to be part of GVCs by importing, but they are part of GVCs by exporting manufactured intermediates to a lesser degree. One possible explanation is that many imported GVC goods are not imported by African firms that are actually part of GVCs. Given the data structure, this may be less the case for GVC exports. While we cannot be certain of the use of (imported) goods, we can be fairly certain that exported GVC goods come from African firms that are actually integrated in value chains.

The regional breakdown of these numbers is shown in Figure 12 with some regions showing larger export values than import values in RVCs.

![Figure 12: Inner manufacturing RVC participation, 2018](image)

While the above suggests more backward linkages (as was the case for GVCs), Figure 13 again shows absolute values for inner-continental manufacturing trade in 2018 for different manufacturing sectors. In absolute numbers, and except for goods from the chemicals industry, imports and exports of value-chain-related manufacturing goods are much more balanced compared to Africa's global manufacturing trade, which was skewed towards imports. This might indicate that the inner-African trade of manufactured goods labelled as value-chain goods are more likely done by firms that are actually part of the respective value chain. On the continental level, RVC related trade is balanced. But on the international level, Africa imports more because it may not have developed the capacity to build good enough products that are further processed in the exporting countries.
De Melo and Twum (2021) show that backward and forward integration of African trade blocks in GVCs is low compared to other trade blocks and larger economies, with only SADC reaching a slightly higher level but not matching the MERCOSUR or India (see Figure 14). They also find that in all RECs, the development of production networks with extra-regional partners dominates those with regional partners. They also point out that there is a striking absence of RVC growth in all African RECs.

Figure 14: GVC related trade volumes for African RECs and comparators, 2015, billions USD

Given the manufacturing RVC numbers of African countries, Figure 15 indicates for every bilateral RVC trade relationship the most important (largest value) 2-digit activity in 2018. Industries that show up most often, of course, correspond to industries in Figure 13. These are [24] Chemicals, [21] Paper and [34] Vehicles. There already seem to be African regional value chains or value chains that are part of larger global value chains for these industries. For
example, most vehicles belong to the SSA (Sub-Saharan Africa) Automotive Pact. WEF (2021) discusses this value chain in more detail.

Overall, given that the data used here only allows for an approximation of participation in value chains, we find that Africa's participation in manufacturing GVCs might seem relatively large. Still, as it is a relative concept, it only tells us that a rather large share of manufacturing trade is GVC trade. This hides the fact that this trade is relatively small in absolute terms, that few countries drive it and that goods that are GVC relevant are either primary goods or services (both not shown here). This is consistent with McGregor-Foster et al. (2015), who come to similar conclusions despite using different data and methodology. Also, regional manufacturing value chains within Africa are less developed. Analysis with value-added trade data (World Bank, 2021) shows that imported manufacturing value-added by African countries that come from other African countries is only about 1% of exported manufacturing value-added, and this calls for action to foster RVC development.
5. The urgent need for RVC development in Africa

Several reasons exist why the continent and African RECs should pursue the road to further economic integration and regional value chain development. Reflecting the failure to integrate into higher stages of GVCs, RECs trade with advanced economies in the global north and Asia consists of over 80% raw materials and unprocessed goods. By contrast, around half of all the regional blocks' intra-regional exports are manufactured goods. Especially after implementing the AfCFTA, the African market offers great unexploited potential, particularly for developing intra-regional value chains (see also World Bank 2019 and 2021, UNIDO 2015, AUC 2021 and forthcoming, Noman and Stieglitz 2015). Some (overlapping) arguments that are commonly made in favour of regional value chain development in Africa are subsumed below:

- **Adding value to African products where it makes sense.** Africa's economies must move beyond producing raw materials to build dynamic and competitive manufacturing sectors with higher value-added. Here, Africa must draw on the opportunities presented by participation in global and regional value chains.

- **Accelerating diversification.** Africa is home to eight of the world's fifteen least diversified countries, according to the International Monetary Fund's Export Diversification Index (2020). Diversification, through both the expansion of existing economic sectors and the creation of new ones, is important to reduce dependency. This argument is underscored by the periodic boom and bust cycles of international commodity prices and, recently, during the global shock to oil and other supply and demand triggered by the coronavirus pandemic.

- **Greater economic resilience.** The COVID-19 crisis has again shown the degree of dependence on international markets in African key export sectors. For example, the Kenyan flower industry has succumbed to COVID-19 due to demand contraction in European markets. By contrast, regional markets have a resilience the global ones often lack, primarily due to geographic proximity. Economic resilience can be achieved through diversification, import substitution and sourcing from and marketing to less distant places while building up local productive capacity in key priority sectors.

- **Local products benefit consumers.** Regional value chains are particularly well suited to serve regional tastes and cultural preferences. The food industry offers the clearest example. Several food crops, such as yam, cassava, potatoes, and aquaculture products, are hardly subject to international competition, in part due to their perishability and the ways of local preparation. Such products can be marketed via regional chains, protected in part by local tastes and habits.

- **Regional GVC integration:** Much propagation has been made to increase the participation of African countries in GVCs and sell products to high-income country markets. This had benefits of value capture, income and firm learning, but only for some. In turn, the region may have also become more exposed and prone to GVC-related shocks, as seen with the onset of the current COVID-19 crisis. A more rapid expansion of regional production capacity, by contrast, allows to diversify, increases the availability of goods that can be consumed in the region, and reduces vulnerability.

- **Import substitution where it makes sense:** Developing regional value chains can further help in reducing imports of some goods or parts from outside Africa that could alternatively be produced on the continent. While importing goods can have many benefits, such as learning from imported technology, a range of goods could be produced on the continent, increasing local value addition and increasing self-sufficiency by reducing vulnerability.
• **Environmental costs.** The long-distance transport of intermediate goods by ship or air that global production arrangements impose come with a significant environmental footprint. Organizing production along RVCs, as opposed to GVCs, means to benefit from geographical proximity, which means a reduction of transport-related carbon emissions.

6. **Current challenges in regional value chain development**

Why, beyond the provision of raw materials and a limited number of low value-added exports, have African countries struggled to integrate regionally and develop industries along regional value chains? It is probably a mix of persistent challenges around structural economic transformation—including slow productivity growth and limited advancement in technology and industrialization—that are responsible for continental Africa’s share of global merchandise exports remaining marginal and the degree intra-regional behind that of other countries regions. Below we list the most common explanations that have been given to explain the failure to develop regional value chains on the continent:

- **High tariffs and non-tariff barriers** in trade between African countries and regions. The introduction of the AfCFTA at the beginning of 2021 will remove some of the barriers, but there is still some way to go to remove barriers to the extent known, for example, in The European Union.
- **Inconsistencies in trade policies.** The A.U. and its regions are currently adjusting their trade policy frameworks which have been inconsistent in the past.
- **Limited exploitation of the potential of emerging, regional and domestic markets.** Firms in Africa and value chain upgrading programs and other policies do not invest enough in product development and access existing and new markets with improved products.
- **Lack of involvement of lead firms and first-tier suppliers.** Africa still lacks attracting investors that seek business partnerships beyond windfall profit expectations. The careful promotion of foreign and local investments based on solid business rationales still needs to be further explored.
- **Weak linkages of primary producers to industries and markets:** Industrial firms still often have week linkages with producers of primary products. This also includes the majority of millions of farmers that find it difficult to target outlets for their products. The rationalization of suppliers' contractual relations with buyers, processors and exporters needs to be improved.
- **Lack of quality culture.** The quality compliance infrastructure and the firm's capacity to improve quality compliance capacity are still in an incipient stage. Local products, therefore, remain low value and face competition from extra-continental competitors. More efforts need to be made to assure and improve quality control along the value chains.
- **Use of inappropriate technologies:** Technologies used in manufacturing are often outdated and inefficient. Investment in new technologies lacks behind due to a lack of funds and lack of technological advances. A marginal share of companies only uses more advanced technologies such as industry 4.0.
- **Expensive and unreliable digital connectivity:** Firms in RVCs need to communicate with their suppliers and customers through internet-based technologies. In many parts of the African business environment, their development still lags behind.
- **SME development:** SMEs and informal companies still constitute a large part of the industrial sector in Africa. Waiting for them to become replaced by larger companies more integrated into value chains with higher value and higher quality products only opens up...
to foreign dominance. Instead, innovative SMEs need to be supported to upgrade and grow into more sophisticated business operations. This requires business planning, production technology and know-how development, finance preparation, and linking to investments and markets.

- **Incipient cluster development**: Collective actions to facilitate joint sourcing of inputs, firm learning, upgrading and joint marketing among firms producing similar goods at one location is still uncommon. In a few places in Africa, the potential is met to develop such firms, especially the large number of SMEs and informal entrepreneurs, through cluster development programmes.

- **Un-targeted skills development**: Entrepreneurs and workers in industrial firms need concrete and specific skills to the production process they engage. Often firms can’t miss workers going to training, and if they do, they learn skills that are not specific enough and targeted to the tasks they are dealing with in the firms.

- **Industrial park development**: New industrial businesses usually need to be allocated in specially designated industrial parks. Often even established businesses – by regulation – have to relocate to such zones. However, such parks often lack infrastructure development, have poor management, and do not benefit local companies. For foreign companies, on the other hand, tax heavens and subsidies are more readily available, and the Government guarantees the infrastructure development at the zones where they choose to locate.

- **Weak infrastructure development**: The infrastructure required for industrial upgrading, including roads and transports systems and ports and the provision of water, electricity, and telecommunication, is often deficient. Many infrastructure development projects at the national, regional and continental levels have been created with international support. But not all of these have been connected to industries and the facilitation of regional trade. Many face last-mile and last-meter issues. Others lack complementarity to economic development (there is a road, but there are no businesses to connect).

- **Underdeveloped innovation systems and local learning networks.** The creation of an innovation ecosystem in which entrepreneurs can develop ideas, get access to knowledge and technology and build, with tech centers and knowledge brokers, new business solutions is not prominent in African Government’s programmes for private sector development.

- **Limited entrepreneurship and youth development**: Entrepreneurship builds the necessary administrative and financial skills and creativity for business opportunities. In the end, the business idea needs to transform into concrete business operations. While Africa has an enormously significant potential of a young and increasingly skilled population of which a good part wants to become entrepreneurs, entrepreneurial skills are neglected in formal and vocational education and programmes.

- **Limited articulation of public stakeholders with business leaders and entrepreneurs in the private sector**: Where public chain upgrading programmes are available, they often suffer from the public sector agents not being business versant enough, to the frustration of the private sector. More emphasis needs to be put on building public capabilities for strategic policy formulation and implementation and developing avenues for private-public cooperation.

- **Lack of shared understanding of core value chain concepts and approaches.** Business planners in the private and public sectors still lack an understanding of value chains' integrated and systemic nature. An actor’s benefit in one segment of the value chain depends on many actors in other parts of the value chain. The governance structures and
power relationships that influence competitive pressures, entry barriers, and upgrading prospects need to be more carefully assessed to craft value chain upgrading action.

- **Insufficient coherence of policies and strategies for regional industrial upgrading.** On the intraregional and interregional levels, the policies for trade acceleration and industrial development are not coordinated. As a result, it comes to a mismatch of continental and regional commitments and regional and national actions.

- **Lack of capacity for developing context-specific regional V.C. upgrading strategies.** Developing V.C. upgrading strategies requires diverse technical expertise in business administration, markets, and industrial engineering and intensive data collection and analysis. Further, V.C. upgrading strategies need to be grounded in business reality, which requires understanding business practices, technologies, quality criteria, cost factors, and risks. Such a level of detail is often not factored into the assessment and the resulting upgrading programmes.

## 7. The road ahead: Strategies for RVC development in Africa

Africa will remain the subject of global forces inclining towards both globalization and deglobalization tendencies. However, with the AfCFTA coming into shape, Africa can embrace a self-supporting regional development agenda through enhanced intra-African trade and regional value chain development. Actively promoting interregional trade of products that contain more value-added generated in Africa would be a pragmatic response to the tendencies of reduction in global trade that we see in parts of the data presented in this paper.

In the COVID era, we also see tendencies of African countries being more engaged in GVC trade being more prone to overall trade losses. Such vulnerability in the trade of specific goods along the value chain – admittedly still on a low level – can be counterbalanced by developing value chain-specific goods across regions. Also, there is potential for building capacities for producing more goods processed by third countries for further exports (forward linkages), while the capacity of African countries to use goods imported from third countries that have already semi-processed them (backward linkages) is more pronounced. For the incipient intra-African trade – even more marginal in size at the moment – this is already quite the opposite; RVC-related exports are higher than RVC-related imports, something that regional trade in Africa can already build on.

In consequence, with proactive and concerted action, Africa is now a new window of opportunity to ramp up its manufacturing sector and prepare it for AFCTA and, indeed, generation of more revenues and value capture on the country and firm-level. No sector creates jobs, generates income, encourages the growth of other sectors, and embeds innovation like manufacturing. Africa needs a new-generation industrialization strategy beyond the traditional focus on value addition and factories with smokestacks.

The AfCFTA, a Flagship Project under Agenda 2063, offers the continent an opportunity to confront significant trade and economic development challenges, that is, market fragmentation; smallness of national economies; over-reliance on the export of primary commodities; low level of regional sourcing, narrow export base caused by shallow manufacturing capacity; lack of export specialization; under-developed industrial regional value chains; ineffective reallocation of resources; and high regulatory and tariff barriers to intra-Africa trade amongst others.

Put into the hands of skilled development planners and trade negotiators, regional development of industrial value chains can become potent vehicles for economic growth and
industrial development on the continent. In this, RVC development strategies can be both outward-looking to supplying to global markets or inward-looking with development intended for regional consumption markets. It is important to note that not all value chains quickly adapt to the two strategies above as they require a certain level of complementarities across the region's countries, e.g., production capacity, resource endowment, infrastructure and markets for sales. As regional value chains emerge, they will organically develop, especially considering unstoppable regional growth, consumption, and industrialization trends. The process requires both state-led integration and private sector-led business development.

Regional value chain development in Africa would require greater specialization between nations and the exploitation of economies of scale. For example, parts of a product would be built in Niger or then quickly moved to Nigeria for final assembly and exported to the region or the world, just as is done in Asia and Europe. Policy action needs to come in here to put the necessary regulations, finance and investment, technical assistance, and business support together so businesses in Africa adjust to the new context's opportunities.

Building an industrial-driven economy across countries and regions does not come about through a simple policy switch. It is a complex process with a nuanced package of policy measures, requiring infrastructural foundations, the development of interfirm linkages, upgrading of knowledge and technology, investment promotion and new marketing approaches. Industrial policy needs to be aligned with building industrial business capacities within countries and across borders. Such efforts need to be finetuned for specific value chains, which all have different challenges to deal with and need to be addressed by innovative local entrepreneurs. The capacity to participate and upgrade in manufacturing GVCs and RVCs depends on resource endowment, geography and development of countries.

However, policy actions to develop regional value chains require a careful mapping of opportunities for more integrated industrialization upfront. More substantial analysis of existing conditions and opportunities would lead to more meaningful and context-specific RVC upgrading programmes available to firms that can pick up to reshape their businesses.
8. References


