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The AfCFTA and Export Manufacturing in Africa in the Context of Regional and Global Value Chains

The perpetuation of the colonial legacy – a development model which ensured that African countries remain exclusively producers and exporters of raw materials to the metropolis in exchange for finished goods has resulted in excessive exposure to adverse terms of trade shocks. In a world characterised by zero-sum game where trade is dominated by manufactured goods, over-reliance on the exports of primary commodities and natural resources has contributed to most African economies finding themselves at the lower end of global value chains.

African producers remain marginal actors in the global manufacturing industry and global supply and value chains. In the context of low regional integration, African exports are characterised by very few manufactured exports, which are concentrated in a limited number of countries, driven by a few sectors, and have limited export market. Even though global value chains (GVC) participation indicators suggest that the degree of regional integration in Africa remains very low, a combination of external and internal drivers could boost export diversification and deepen regional integration. Intra-African trade and industrialisation are mutually reinforcing in the continent. Accordingly, by sustainably raising intra-African trade, the new African Continental Free Trade Area (AfCFTA) could catalyse the development of regional value chains (RVCs) and expand manufacturing output to improve the participation of African countries in GVC trade. According to the most recent available estimates, RVCs accounted for only 2.7 percent of Africa's global value chains participation in 2019, against 42.9 percent in developing Asia.

The global manufacturing environment is changing, at different levels including competition, technology, regulation, demand structure as well as the geography of production. The upgrading of China's manufacturing specialisation is a key component of this restructuring process. In global markets, China has reached the peak of several of its labour-intensive products and its market shares are declining. As a result, a growing export potential is made available to a new generation of exporters. In the coming decades, a large share of these new productions and exports could be located in Africa, one of the regions in the world where a large supply of low-wages workers will be available. In addition, on the demand side, Africa's formal consumer markets have enormous potential for future growth.

The decentralisation of global value chains (GVCs), which has further been accentuated by both the COVID-19 pandemic and heightening geopolitical tensions could therefore fast-track the development of regional value chains (RVCs) within the continent with the view to deepening firm-to-firm relationships and catalyse the production of manufactured goods to significantly increase both extra—and intra-African trade - and support the implementation of the African Continental Free Trade Agreement (AfCFTA). The AfCFTA which entered into force in January 2021 has been touted as a game changer because it has the potential to increase and shift the composition of foreign direct investment to accelerate the process of industrialisation and structural transformation of African economies.

The migration of labour-intensive production out of China, which has been the major export base for light manufacturing, has particularly been prominent for garments, footwear, and leather products. China reached the peak in the manufacturing of these highly labour-intensive products in the mid-2010s, unleashing a new wave of late-industrialisation and manufacturing exports. However, despite the aggressive push for "nearshoring" or "relocation" by advanced economies, these labour-intensive products from China have not migrated toward Europe or the United States; rather, the main beneficiaries have been a growing number of late-industrialisation countries in Asia.

In order to achieve export potentials and develop regional/global value chains, African countries must urgently accelerate the process of structural transformation and strengthen their manufacturing sector. It is therefore essential to promote the expansion of investment, both domestic and foreign, and to put in place the basic necessary conditions to benefit from the potential positive effects of these new investments- notably to reduce all the obstacles and difficulties which hamper trade.

More than 700 million additional workers will enter the labour market in Africa in the coming decade. Despite the projected abundance of cheap labour and improvement in the business and competitiveness environment in the AfCFTA era, the success of African countries at developing RVCs for export manufacturing-led growth depends on several factors.

First, countries across the region must increase their absorptive capacity (i.e., a developed productive base, sufficiently trained human capital, good quality infrastructure, and a properly functioning institutional system) to attract foreign direct investment (FDI), and boost capital and labour factors.

Second, the imperatives of improving trade facilitation beyond border issues to include developing RVCs and increasing manufacturing exports are enormous. For instance, several empirical studies have established that the growth and development impact of the AfCFTA will be even more important if the elimination of tariff barriers is accompanied by the implementation of trade facilitation measures to address non-tariff barriers and the high cost of doing business in Africa.

Third, developing the right institutional and regulatory framework that supports access to, and use of, digital technologies and market platforms is another key element to catalyse the development of RVCs and export-led growth. Developing the appropriate institutional framework is also critical for the implementation of the AfCFTA, considering the correlation between services trade and trade in goods.

Fourth, addressing the chronic energy deficit, which has been one of the major constraints to output expansion and growth, will be critical to raise the competitiveness of the region in the ongoing realignment of global supply chains. Again, addressing the energy deficit is also critical for the development of robust RVCs, to deepen economic integration of African countries into the global economy. The region is well-positioned to draw on the abundance of both renewable and non-renewable sources of energy.

Fifth, the importance of strengthening regional cooperation, which catalyse the process of structural transformation by optimising the allocation of resources, specifically, by facilitating the identification of the most lucrative value chains based on regional competitive advantage, cannot be overemphasised. Indeed, in the AfCFTA era, regional integration will significantly contribute to enhancing the emergence of robust RVCs and a successful manufacturing-led growth model in the region.

These are requisite building blocks and foundation for African economies to succeed in stimulating domestic investors and attract foreign investors to seize the opportunities of export growth created by current and future changes in the changing global manufacturing setting in the context of the implementation of the AfCFTA.

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