MEDIA RELEASE

Seeing the Value in Global and Regional Value Chains: Lessons for Africa

The benefits of global value chains (GVCs) – from higher productivity to greater access to technology and markets – are becoming increasingly evident as more and more producers in developed and developing countries adjust their business mind-set to one of 'made in the world'. Moreover, as production processes are dispersed to other regions, there is growing awareness that the pre-eminence of traditional trade statistics as a decision-making tool is declining. This was the message of **Christophe Degain** (Senior Statistician in the WTO's Economic Research and Statistics Division in Geneva, Switzerland) speaking at the opening session of a WTO Chair/NWU workshop on **'Global Value Chains (GVCs) and Trade in Value Added (TiVA)'** which the **WTO Chair/TRADE research entity** hosted at **North-West University** from 30 May –1 June 2017.

"The traditional approach to measuring a country's trade is to record gross flows of goods and services every time they cross a border," explained Christophe. "But this means that an intermediate product, which enters a global value chain and passes through several production stages (and countries) before the final product emerges, could be counted several times in trade figures. This 'double counting' or 'multiple counting' gives a distorted view of the relative importance of different industry sectors, which in turn has implications for competitiveness and job growth."

Christophe went on to say that such a problem could be averted if a Trade in Value Added (TiVA) approach is used. The TiVA database estimates the source (by country and industry) of the value that is added in producing goods and services for exports. By determining the actual contribution of different products and services to a country's economy and revealing where the important country (and GVC) linkages are, the TiVA method ensures that policymakers are able to operate from a more informed base.

Adopting a TiVA approach can sometimes yield surprising or unexpected results. For example, whereas many would think that the Apple iPhone is largely manufactured in China these days – which would generate sizeable export revenues for the country – a study conducted a few years ago showed that China's contribution to the manufacture of the final product was, in value-added terms, less than 10%. The bulk of components and value-added activity originated in South Korea, Hong Kong, the United States and Germany, which would also have sourced intermediate goods from elsewhere.

To throw more light on the value addition process and associated trade flows, datasets are needed that link production processes within and across countries. To this end input-output tables are developed by statistical offices which aggregate firms into groups or sectors that produce similar products. Although this does not allow for the total domestic value-added associated with the manufacture of an iPhone or any other product to be unpacked, it does provide some useful estimates.

The WTO and OECD have developed the TiVA database to support researchers in refining inter-country input-output (ICIO) models in order to gain more precise insights into the composition of global production networks. Meanwhile, the TRADE research team is engaging with the WTO about possible research collaboration. Clearly, arriving at a better understanding of the value-added dimension of different goods and services will bring greater clarity to policymakers and this in turn will enrich their deliberations about trade balances/imbalances, market access, competition, industrialisation, inward investment and offshoring, services, intellectual property rights, SME development and other considerations. Yet challenges remain.

"GVCs have shifted people's attention from trade in sectors to trade in tasks," remarked **Dr Victor Kümmritz** (Research Economist in the WTO's Economic Research and Statistics Division in Geneva). "The challenge, though, is that the fragmentation of production doesn't really lend itself to broad policies."

While not disputing the importance of having a sound trade policy that provides clarity and an operational framework to a country's exporters and importers, Victor added that this is not enough. Leveraging the power of GVCs, in particular, requires that many fundamental building blocks be in place, including an attractive investment climate, efficient infrastructure and distribution networks, digital connectivity, strong and ethical public and private sector institutions, and high-quality education and skills development opportunities. Furthermore, general policy certainty across all economic sectors is crucial because GVCs will only thrive if they are the subject of long-term planning and investment.

"There is much scope for positive spill-overs from GVCs, but only if countries have enough absorptive capacity," remarked Victor.

The high prevalence of NTBs (non-tariff barriers), especially in the poorer parts of the world, can play havoc with tight (e.g. JIT/just-in-time) production schedules and can weaken producers' prospects of participating in GVCs. Therefore, carefully crafted trade agreements are crucial to reduce the risk of discriminatory practices and poor alignment between trading partners' regulatory and administrative regimes. In this regard the WTO's TFA (Trade Facilitation Agreement), which recently came into force, should go a long way towards bringing predictability and regulatory consistency to trade in many parts of the world. By clarifying customs procedures and streamlining logistics, the TFA should also clear the way for more SMEs to become active exporters and importers.

Value chains mainly manifest at a regional level because distance, both to sources of supply and to markets, is a key factor in companies' ability to be competitive. Therefore, effective regional integration is one of the hallmarks of a successful GVC strategy.

Elizabeth van Renen (Chief Director: Trade Policy and Research at South Africa's Department of Trade and Industry) spoke about the need for SADC (Southern African Development Community) member countries to build strong trade alliances using regional value chains as a vehicle.

"Regional economic integration is not negotiable," Elizabeth said. "It has to happen if we want to see the continent develop."

However, she noted that many hurdles are standing in the way. The comparatively high cost and often excessive time involved in moving cargo in many parts of Africa make the effective functioning of regional value chains difficult. Weak infrastructure is one of the leading culprits, while many African markets are also small and fragmented which dulls their allure as export destinations. In addition, a plethora of NTBs, including cumbersome trade procedures, a mismatch in countries' rules of origin and technical standards, and a lack of institutional capacity, add to the cost of trading in the region.

Elizabeth said that the South African government advocates a developmental integration approach. She explained that the 'linear' approach to integration in Africa (which focuses largely on market opening) is no longer adequate as Africa's development challenges run deep and are retarding countries' trading efforts. As a result, Africa operates on the side lines of global trade. In fact, its share of global production and trade is declining. Developmental integration, which has become an accepted principle in most formal regional economic integration arrangements on the continent, has three main elements: market integration, industrial development and infrastructure development (covering transport, energy, telecommunications, etc.).

Elizabeth went on to say that the Department of Trade and Industry is convinced that economic development in South Africa is dependent on viable regional value chains being established, with agriculture being held up as a sector with particularly strong industrial development and export potential. Echoing Victor Kümmritz's views, she said that trade policy alone will not lay a strong enough foundation for the growth of a regional value chain culture. Partnerships are needed between the government, the private sector, civil society and other development organisations, all working towards "a compact for industrialisation". She said that infrastructural corridors were essential and that skills development was also a critical component in boosting labour productivity and ensuring that more people move into more specialised work and higher wage brackets.

The importance of services to the effective functioning of regional value chains in Africa should not be overlooked as they can help to enhance the competitiveness of manufacturing firms. A drawback is that many African countries downplay the potential of the services sector to act as a driver of economic development and trade, remaining preoccupied with building their manufacturing capacity – though this is often an expensive and technologically challenging option.

In answer to a question about how Africa, which consistently trails behind the rest of the world economically, could speed up its development, Elizabeth said that ultimately it is up to the private sector to drive the process. Policy has an important role to play but an environment must be created in which the private sector can thrive.

Dr Adelia Jansen van Rensburg (a post-doctoral fellow in the TRADE research entity) added that "the private sector does not wait for trade negotiations and the right policies to be in place in order to do business internationally. We should not underestimate the drive of the private sector to follow opportunities. They are, after all, at the heart of trade."

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