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Spreading the gains?

Prospects and policies for the development of regional value chains in Southern Africa

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Abstract: Regional integration is making steady progress in Africa and a key objective is to improve the prospects for industrialization by expanding the regional market. This paper draws on a combination of trade data analysis and industry case studies to better understand the links and synergies between regional value chains and regional integration. The trade data and case studies of three diverse sectors (apparel, food retailing, and automotive) demonstrate the expansion and diversity of regional trade and regional value chains in Southern Africa. This diverse composition of regional exports is suggestive of an opportunity to further enhance industrial development through intra-regional trade. The long-term sustainability of Southern African regionalism depends on the recognition of the importance of regional industrial policy that takes account of the dynamics driving global and regional value chains and facilitates regional linkages across all these sectors.

Keywords: apparel industry, automotive industry, food retailing, regional integration, Southern African Development Community, value chains
JEL classification: F15, L62, L66, L67

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1 Introduction

Regional integration is making steady progress in Africa and a key objective is to improve the prospects for industrialization by expanding the regional market (African Development Bank 2019). But there is a long way to go in converting overarching agreements into actual, free, regional trade. The difficulties of achieving full-scale regional integration are well known. And while there are huge benefits for the region as a whole, these are unevenly distributed, especially at the sectoral level. Policy makers driving the process need to demonstrate widespread gains to get buy-in by all stakeholders across the region. Indeed, in most successful examples of regional integration, economic stakeholders have been major drivers.

There are strong links and synergies between regional integration and the development of regional value chains (RVCs). Insofar as RVCs enable the movement of goods, people, and capital across borders, they substantially facilitate regional integration. If RVCs establish access to larger markets (global or regional) and develop scale economies, they widen the scope of regional integration. When RVCs promote learning and build dynamic, specialized capabilities (of managers and workers) within firms, they deepen regional integration. Inasmuch as RVCs create backward, forward, and horizontal linkages of value addition between firms across borders, they extend the scope of regional integration. Most importantly, while RVCs can develop as a result of regional integration, they also have the potential to create pressure for further integration. Hence regional integration is integral to RVC expansion.

The familiar narrative on African trade is that it is characterized by dependence on raw material exports, low levels of regional integration, poorly developed RVCs, and, in the case of intra-regional trade in Southern Africa, a very lopsided trade balance in favour of South Africa. However, on closer examination a more nuanced picture emerges. First, intra-regional exports are far more focused on manufactured goods than is the case for exports in general; and this is particularly evident in the Southern African Development Community (SADC). Second, levels of intra-SADC trade are rising as a share of total trade (i.e. trade is becoming more regionalized) and there is evidence of the emergence of regional value chains. Third, there are clear emerging examples of dynamic growth in the export of manufactured goods to South Africa from the other countries of the region.

This paper explores these issues. Section 2 uses aggregate trade data to provide an overview of SADC trade patterns and participation in regional and global value chains. These developments are then analysed in three sector case studies. The three sectors—the apparel industry, the food sector and its associated retail chains, and the automotive industry—have very different dynamics in terms of prospective national gains and losses in a more integrated Southern African economy. Section 3 examines apparel, a sector in which the other countries of the region (apart from South Africa) have demonstrable advantages and exports to South Africa have been growing rapidly. Section 4 examines the expansion of South Africa-based food retail chains, which have grown throughout the region. Much of their product is sourced from South Africa, but in the face of growing pressure from host countries, there are some interesting emerging examples of the development of local sourcing. Section 5 considers the automotive industry, a sector which is heavily concentrated in South Africa and where it is difficult to foresee significant clusters emerging elsewhere in Southern Africa in the short to medium term. Section 6 concludes.

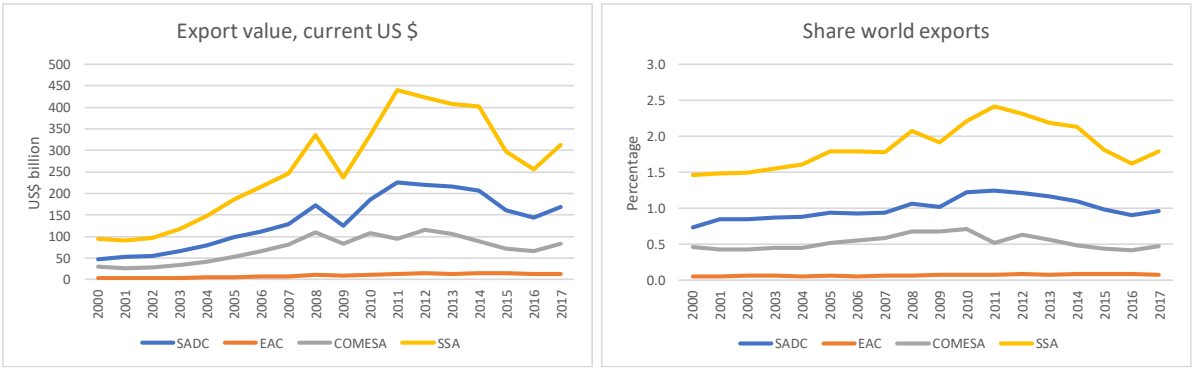
2 Intra-regional trade flows in Southern Africa

This section uses recent trade data to present a background overview of trade integration in Southern Africa. Its objective is to analyse the extent to which Southern African economies, defined here as members of SADC, have been integrated into the global and regional economy. The first part draws on gross export and import data reported by each country from 2000. However, with the fragmentation of production and the emergence of global value chains (GVCs) as key drivers of export performance, conventional trade statistics can be a misleading measure of the value produced by a country. Consequently, the second part of this section draws on the valued added trade data obtained from the UNCTAD-Eora Global Value Chain Database. Using these data, we provide some insights into the integration of Southern African countries into GVCs and the contribution of RVCs to this process.

2.1 Intra- and extra-Southern African trade in goods

The story of SADC's share of world trade in the second half of the 20th century was one of declining world market share (Amjadi et al. 1996). From 2000, however, the value of exports from SADC countries rose, largely in response to the global commodity price boom. As shown in the first graph of Figure 1, which depicts the value in US dollars of exports for SADC, Sub-Saharan Africa (SSA), and selected Regional Economic Communities (RECs), the value of SADC exports rose from just under US$50 billion in 2000 to US$225 billion 2011, but then declined to US$168 billion in 2017 with the collapse in commodity prices. Trends in the share of SADC in world exports followed a similar pattern, rising from 0.8 per cent in 2000 to 1.2 per cent in 2011 and then declining to 1 per cent in 2017 (right-hand panel of Figure 1).[1]

Figure 1: Sub-Saharan African share of world trade



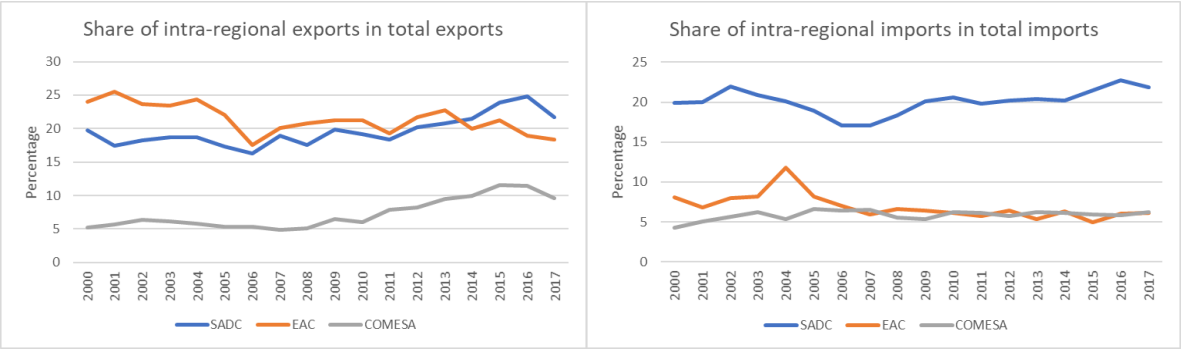
Notes: SADC = Southern African Development Community; EAC = East African Community; COMESA = Common Market for Eastern and Southern Africa; SSA = Sub-Saharan Africa. Djibouti, Libya, and Egypt are included in COMESA, but are excluded from SSA. South African exports to Botswana, Lesotho, Namibia, and Eswatini are estimated for the 2000–2009 period using their average share in total South African exports over the 2010–2011 period.

Source: Authors' illustrations based on International Monetary Fund Direction of Trade Statistics (IMF DOTS), accessed January 2019.

[1] The South African authorities changed their submission of trade statistics to better reflect trade with Botswana, Lesotho, Namibia, and Eswatini from 2010. Trade with these countries made up 11.6 per cent of South African exports and 2.5 per cent of South African imports in 2010/11. These shares are used to impute South African exports and imports to these countries over the period 2000–2009.

Figure 2 shows that regional trade within SADC also grew strongly during this period, both in value terms and as a share of total exports, rising from 20 per cent in 2000 to 25 per cent in 2016, with particularly strong increases from 2011. This growth in exports was driven by relatively strong economic growth in the region as well as a reduction of tariff barriers due to the implementation of a free trade agreement from 2000 (IMF 2018).[2] Looking at imports, intra-SADC trade shares fell initially to the mid-2000s but subsequently rose, reaching 23 per cent in 2016. The post-2000 period is therefore characterized by the rising importance of Southern Africa in world trade as well as increasing integration in the regional market.

Figure 2: SADC share of world trade



Notes: SADC = Southern African Development Community; EAC = East African Community; COMESA = Common Market for Eastern and Southern Africa. South African exports to Botswana, Lesotho, Namibia, and Eswatini are estimated for the 2000–2009 period using their average share in total South African exports over the 2010–2011 period. Shares are based on the aggregated value of trade for the region.

Source: Authors' illustrations based on IMF DOTS, accessed January 2019.

Looking within the regions, trade performance varies substantially across countries. Table 1 presents the share of total exports into the Southern African region from SADC countries over the years 2000 and 2017. Looking at the data, the share of exports into SADC region rose for almost all countries with the exception of Mozambique, reflecting widespread integration across Southern Africa. Contrary to many concerns regarding low levels of regional integration, trade for many countries is highly regionalized, even when compared with the highly integrated Asian and European regions. Intra-SADC export shares exceed 30 per cent for Lesotho, Malawi, Namibia, Eswatini (94 per cent in 2017), DRC, and Zimbabwe. In contrast, Angola, Comoros, Seychelles, and Madagascar export less than 10 per cent of their goods to the SADC region.

The data for imports presented in Table 2 reveal a more diverse pattern of changes in the share of imports being sourced from the SADC region, with fewer countries experiencing rising shares over the period 2000–2017. However, the dependence on imports from the region is higher than on exports, nine of the countries sourcing more than 30 per cent of their total imports from SADC partners in 2017 (vs. six for exports). Overall, patterns of integration are mixed across the region, suggesting caution in using aggregate levels of intra-regional trade shares as reflective of country-level performance.

Substantial asymmetries in intra-regional trade flows are also present. As the dominant economy in the region, South Africa is the major source of intra-regional exports as well as the primary

[2] Gravity model estimates for this paper using 2015 data obtained from UN Comtrade and CEPII (www.cepii.fr/CEPII/en/cepii/cepii.asp) reveal the importance of distance, productivity capacity and market size (GDP), trade agreements in the form of regional trade agreements or common monetary areas, contiguity of borders, and logistics in destination markets as critical determinants of intra-SSA trade flows.

regional market for other SADC country exports. On aggregate, South Africa as a destination accounts for a gradually rising share (65 to 70 per cent) of the other SADC members' exports to the region (Table 1). South Africa is an even more dominant supplier of goods in the region, making up 88 per cent of other SADC members' regional imports in 2000 (Table 2). This share fell to 71 per cent in 2017 as SADC countries diversified their imports to other SADC member countries and the rest of the world.[3]

Table 1: Intra-Southern African exports as share of total exports

	Share intra-SADC exports in total exports (%)		Proportion intra-SADC exports destined for South Africa (%)*	
	2000	2017	2000	2017
Angola	0	4	19	100
Botswana	11	14	57	68
Comoros	1	5	7	2
Lesotho	28	34	99	95
Madagascar	3	6	9	44
Mozambique	36	21	41	87
Mauritius	7	18	9	50
Malawi	18	34	49	20
Namibia	32	42	76	52
Eswatini	73	93	77	99
Seychelles	3	5	58	41
Tanzania	7	27	31	65
South Africa	25	23		
DR Congo	42	42	74	74
Zambia	39	17	63	34
Zimbabwe	17	79	51	61
SADC	20	22	65	70

* The proportion of intra-SADC exports sold to South Africa excludes exports by South Africa to the region.

Source: Authors' calculations using IMF DOTS, accessed January 2019.

Two further insights emerge from the asymmetry in economic size and trade flows of South Africa. First, although South Africa is a major market for goods from the region, it still only sources a relatively low share of its total imports from the region (7 per cent in 2017). In contrast, a relatively high proportion of its total exports (23 per cent in 2017) are sold to the region.[4] Consequently, South Africa runs a large trade surplus with the region, although this has stabilized at around US$14 billion over the post-2010 period as SSA countries have increased exports to South Africa and diverted imports from South Africa to other SADC sources.

Second, levels of integration into the region are relatively low once South Africa is excluded as a destination or source market. Only 6 per cent of the rest of SADC exports are destined for SADC countries outside South Africa. Looking at imports, 11 per cent of the value of imports by the rest of SADC countries is sourced from the SADC region outside South Africa (38 per cent if imports

[3] South Africa as an origin still accounts for over 80 per cent of regionally sourced imports by the other members of the Southern African Customs Union (SACU)—Botswana, Lesotho, Namibia, and Eswatini.

[4] There are wide discrepancies between the value of exports to South Africa reported by SADC countries and the value of imports from SADC reported by South Africa. In 2017, for example, the latter was said to be US$6.2 billion, compared with US$11.3 billion for the former.

from South Africa are included). The moderate levels of regional integration found thus primarily reflect patterns of SADC country trade with South Africa.

Table 2: Intra-Southern African imports as share of total imports

	Share intra-SADC imports in total imports (%)		Proportion intra-SADC imports sourced from South Africa (%)*	
	2000	2017	2000	2017
Angola	13	7	84	88
Botswana	77	73	95	88
Comoros	13	16	69	8
Lesotho	77	68	100	98
Madagascar	6	9	68	59
Mozambique	51	31	96	90
Mauritius	17	12	86	70
Malawi	53	35	77	58
Namibia	87	67	99	83
Eswatini	93	83	99	97
Seychelles	14	9	81	66
Tanzania	13	7	87	74
South Africa	1	7		
DR Congo	37	37	49	49
Zambia	69	58	83	48
Zimbabwe	49	74	77	63
SADC	20	22	88	71

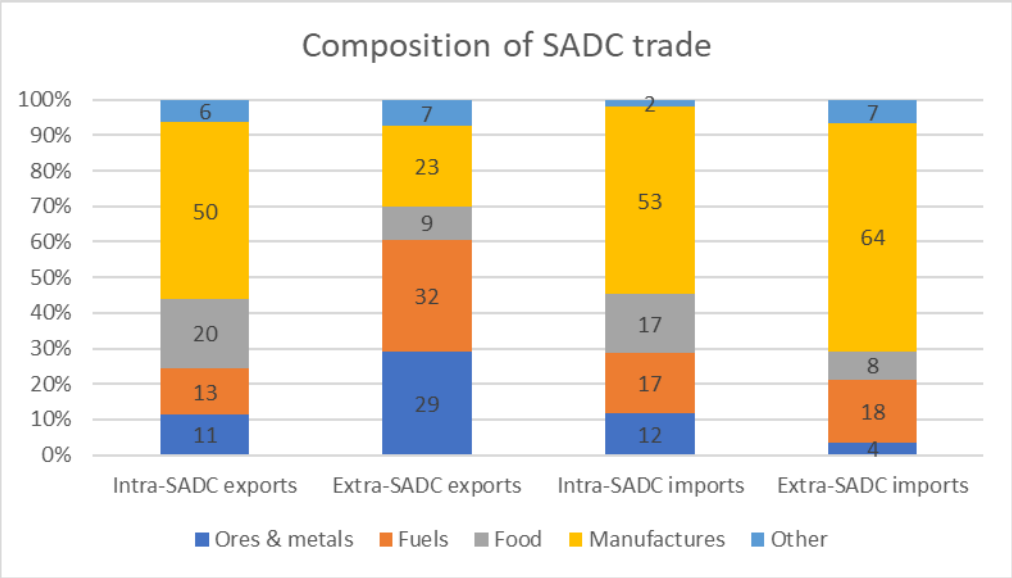
* The proportion of intra-SADC imports sourced from South Africa excludes imports from the region by South Africa.

Source: Authors' calculations using IMF DOTS, accessed January 2019.

A further distinctive feature of regional trade in SADC is that the product composition of exports is oriented more towards manufactured goods than the region's exports to the rest of the world. Figure 3 presents the share in the value of total intra- and extra-SADC trade accounted for by Manufacturing, Fuels, Food, Ores & metals, and Other products. Manufactured goods make up half of intra-SADC exports, compared with slightly less than a quarter of exports outside SADC. Exports to countries outside SADC are dominated by Fuels (Angola) and Ores & metals. Country-level analysis reveals similar patterns, manufacturing accounting for higher shares of exports to the region than the rest of the world for all SADC countries, with the exception of Comoros, where manufacturing makes up a small share of overall exports. This finding is corroborated by detailed product-level analysis (at the 6-digit level of Harmonized System classification). Behar and Edwards (2011) show that SADC country exports to the region are more diversified and that there is little overlap in the structure of export shares to SADC and the rest of the world for the top export products.

This composition of regional exports is suggestive of an opportunity to enhance industrial development through intra-regional trade. Further, with the rising importance of GVCs in driving manufacturing exports, there is potential to leverage off regional trade to build and deepen regional value chains.

Figure 3: Composition of intra- and extra-SADC trade in goods, 2015 (%)



Notes: Mirror data are used for Comoros, Lesotho, and Swaziland. The SITC Revision 2 product 667 (Pearls, precious & semi-precious stones) is included in Ores & metals to reflect the commodity nature of this product. Share composition is based on total value of SADC trade.

Source: Authors' calculations using UN Comtrade data.

2.2 SADC country participation in global and regional value chains

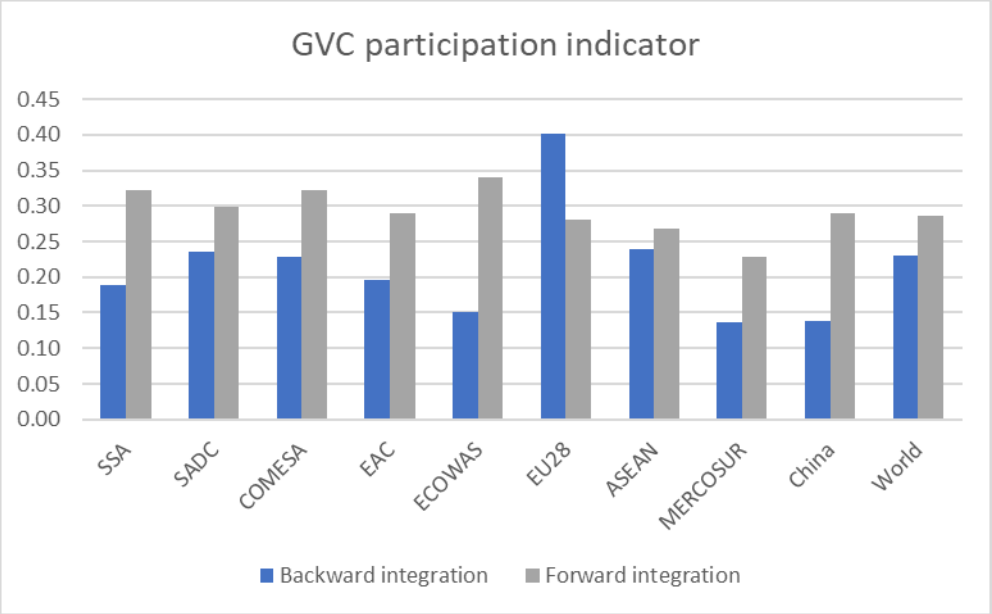
While trade in goods across regions is illustrative of the extent to which markets are integrated, the challenge posed by the data is that they cannot easily be used to unpack how firms across countries are integrated into production networks, either GVCs or RVCs. The gross value of exports does not represent the local value added, since production, particularly of manufactures, frequently requires the use of imported intermediate inputs. For example, vehicle exports from South Africa include components sourced from its neighbouring countries (wiring harnesses from Botswana and stitched leather seats from Lesotho) as well as from the rest of the world (Farole 2016). This is an example of backward vertical integration, whereby foreign value added is embodied in a country's exports. A country can also participate in GVCs or RVCs as a supplier of inputs used by third countries in their exports. This is commonly referred to as indirect value added or forward integration (De Backer and Miroudot 2013; Koopman et al. 2010).

Several databases have been constructed that unpack gross exports into the country-level sources of value addition (see AfDB 2014: 135). To evaluate SADC participation in GVCs, this section draws on the UNCTAD-Eora Global Value Chain Database (Lenzen et al. 2013), as this provides the most comprehensive coverage of value added exports across African countries (45 countries in SSA) up to 2018. Two key indicators are used. The first is a measure of backward integration calculated as the share of foreign value added (FVA) in gross exports. This indicator is likely to be higher if exporters are involved in more downstream activities. As argued by Farole (2016), backward integration provides access to quality inputs that can contribute to downstream competitiveness and productivity spillovers through access to global frontier technologies. The second indicator is a measure of forward integration (indirect value added) and is calculated as the domestic value added embodied in exported intermediate inputs used to produce other countries' exports (DVX) expressed as a ratio of gross exports. High levels of forward integration occur

when firms are located upstream in the value chain and in developing countries, and is often associated with the export of natural resources.[5]

Figure 4 presents the mean forward and backward indicator for selected regions, including SADC, for 2015. Surprisingly, the level of GVC integration, as measured by the sum of the two indicators, is on average high amongst SADC countries compared with the world average and even when compared with the ASEAN region.[6] The data suggest that SADC countries do not lag others in terms of their integration into global value chains.

Figure 4: GVC participation decomposed into forward and backward integration 2015



Note: Backward integration is calculated as the foreign value added share in gross exports. Forward integration is calculated as the domestic value added embodied in intermediate inputs used in other country exports as a share of gross exports. Values reflect the average across countries within each group. The data for Zimbabwe have been excluded as they show unrealistic levels of integration.

Source: Authors' calculations using the UNCTAD-Eora Global Value Chain database.

The figure illustrates several additional features about GVC participation by SSA and SADC countries. Advanced economies (EU 28) tend to locate in downstream activities and have higher levels of backward integration, a finding corroborating that of Del Prete et al. (2017). SADC (and SSA) countries, in contrast, are on average located more upstream, with relatively high shares of their value added exports embodied as intermediate inputs in other countries' exports (forward linkage). This reflects the resource-intensive composition of the region's exporters. For example, within SSA countries, there is high upstreamness for oil- and resource-rich countries such as DRC, South Sudan, Nigeria, and Angola.

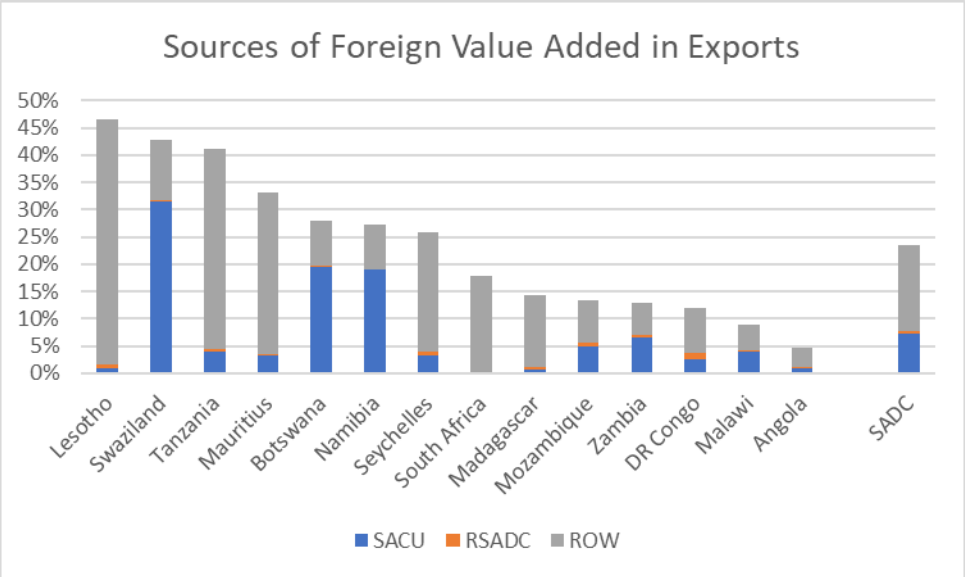
To compare GVC participation across SADC countries further, Figures 5 and 6 present the backward and forward integration indicators for each SADC country, respectively. These indicators are further decomposed to show the origin or destination (Southern African Customs Union (SACU), rest of SADC (RSADC), and rest of world (ROW)) of the value added in the backward and forward integration indicators. The components associated with the SACU and

[5] The sum of these two indicators is commonly used as an indicator of GVC participation (Aslam et al. 2017).

[6] The AfDB (2014) and Del Prete et al. (2017) find similar results for Africa and North Africa, respectively.

RSADC are thus an indicator of the contribution of SADC regional value chains in each country's GVC participation.

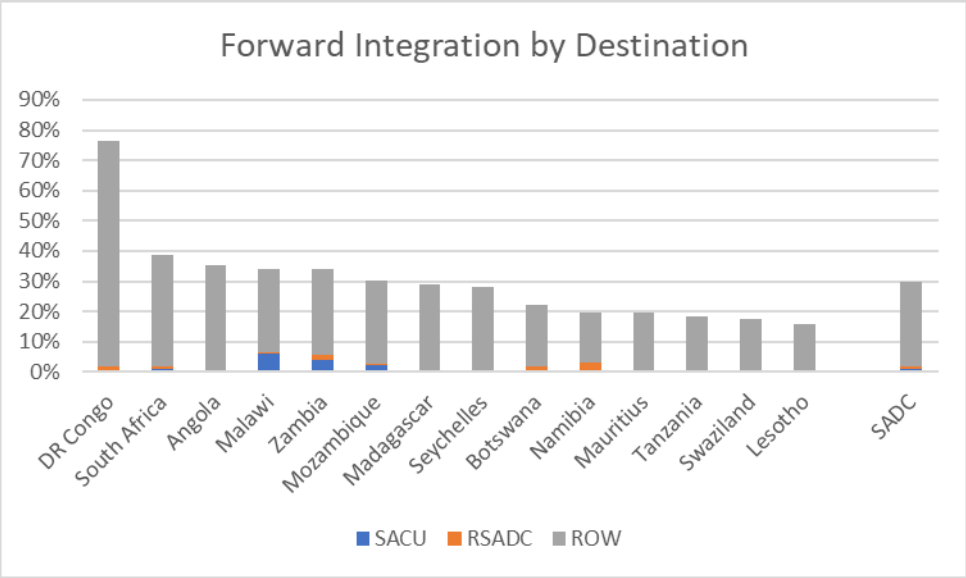
Figure 5: Backward integration into SADC and rest of world by SADC country, 2015



Notes: SACU = Southern African Customs Union; RSADC = SADC excluding SACU; ROW = rest of world, comprising all remaining countries in the UNCTAD-EORA GVC database. The data for Zimbabwe have been excluded as they show unrealistic levels of integration.

Source: Authors' calculations using the UNCTAD-Eora Global Value Chain database.

Figure 6: Forward integration into SADC and rest of world by SADC country, 2015



Source: Authors' calculations using the UNCTAD-Eora Global Value Chain database.

Looking at Figure 5, it can be seen that Lesotho, Swaziland, Tanzania, and Mauritius all have strong backward integration linkages, with foreign value added making up between 33 and 47 per cent of the gross value of exports. These countries also tend to have low indicators of forward integration (Figure 6), pointing to a more downstream location in the value chain. At the other extreme are Angola and Malawi, with foreign value added shares of less than 10 per cent and relatively high measures of forward integration, reflecting the resource composition of their exports.

The source of foreign value added also differs across SADC countries. On average, foreign value added sourced from the region comprises 11 per cent of the value of gross exports across SADC countries (Figure 5), although this almost entirely reflects imports from South Africa. The regional value added share in gross exports is very high for Namibia, Swaziland, and Botswana (20–30 per cent of gross exports), reflecting the importation by these countries of intermediate inputs from South Africa for the production of final goods for consumption in the South African market.[7] While the total foreign value added shares in exports are lower for Mozambique, Zambia, and Malawi, a high proportion (over 35 per cent) of the foreign value added is sourced from SACU (almost entirely South Africa). South Africa is thus a relatively important source of value added in downstream production and exports for many countries in the region.

In contrast, the regional value added share in exports of Lesotho is low, reflecting its export of clothing products that use imported fabric to the United States under the African Growth and Opportunity Act (AGOA). Tanzania, Mauritius, Seychelles, and Madagascar also have low value added linkages into the region. The same holds for South Africa, suggesting that firms in South Africa, the regional hub, are failing to develop or draw on regional value chains to enhance their export performance.

Figure 6 reveals very low forward linkages of SADC countries into regional value chains. The indirect value added exports to SADC countries makes up on average only 2 per cent of each SADC country's gross exports. This is indicative of 'thin' (short) regional value chains. With longer regional value chains, we would see more evidence of goods transitioning between SADC countries as firms added value at each stage.

Broadly, the data suggest that while SADC countries are well integrated into GVCs, their role is primarily that of exporters of resources. There is also some evidence of strong regional linkages, with high shares of regional value added embodied in the exports of several SADC countries. However, as found with the analysis of gross exports, South Africa is the main source of this foreign value added. There is very little evidence of foreign value added in SADC country exports being sourced from SADC countries other than South Africa. Forward integration into regional value chains is very low, suggesting the presence of very short regional value chains.

3 The development of value chains in the apparel and textile industries

Since 2000, several SSA countries have developed and expanded export-oriented apparel industries aimed mostly at developed country markets in the USA and EU. This trend was driven by a combination of: (i) favourable global trade policy regulations (the Multi Fibre Arrangement and preferential trade agreements with the USA and EU), (ii) GVC dynamics, and (iii) national industrial policies supporting exporting and attracting FDI. AGOA and the Everything But Arms (EBA) preferential trade agreements allowed selected African countries tariff-free access into the US and EU markets (Kaplinsky and Morris 2008; Staritz 2011).[8] Table 3 shows the increase in apparel exports to the world from selected SSA countries, as well as shifts in the composition of

[7] The high backward linkages (also into the region) for Eswatini may reflect its export to the region of fizzy drink concentrate, which uses large quantities of regionally sourced sugar.

[8] AGOA and EBA provide duty-free market access coupled with non-restrictive rules of origins (ROOs) allowing single conversion, i.e. eligibility of apparel products without restriction on the source of fabric or yarn, for defined lesser developed countries. AGOA also requires democratic conditionalities. SADC ROOs require double conversion, i.e. sourcing fabric from the region, for duty-free entry to the South African market.

apparel exporters.

Table 3: Apparel exports from selected SSA countries to the world (US$m)

	2000	2002	2004	2006	2008	2010	2012	2014	2016	2017
Madagascar	364	241	563	580	691	384	496	581	648	698
Mauritius	1,017	967	998	903	993	791	831	876	732	667
Lesotho	146	348	494	418	370	362	382	405	431	442
Kenya	47	140	307	288	270	224	267	425	378	375
Swaziland	36	102	191	143	136	156	162	192	154	193
Ethiopia	1	1	5	6	13	13	51	68	87	118

Source: UN Comtrade.

Table 4 demonstrates that this dramatic jump in global apparel exports is a result of preferential trade access to US and EU markets post 2000. It also demonstrates the impact of the end of the MFA (31 December 2004) and the 2008 global crisis, as well the emergence of new export patterns.

Table 4: Apparel exports from selected SSA countries to the USA and EU (US$m)

	2000	2002	2004	2006	2008	2010	2012	2014	2016	2017
Exports to the USA										
Kenya	44	135	296	278	258	212	254	392	352	348
Lesotho	140	343	482	407	359	294	301	299	305	299
Madagascar	110	97	346	254	295	58	43	21	107	165
Mauritius	245	272	240	125	106	126	163	230	203	152
Swaziland	32	95	188	142	132	98	60	57	1	0.4
Ethiopia	5	1	4	5	11	7	10	13	34	55
Exports to the EU										
Madagascar	247	135	204	302	353	282	349	408	382	376
Mauritius	731	666	731	724	781	533	437	422	335	331
Ethiopia			1	1	2	5	37	53	47	54
Kenya	2	1	3	1	2	2	2	12	9	10
Lesotho	2	2	1	1	3	2	2	0	2	4
Swaziland	2	0.2	1	0.1	0.1	0	0	0	0.4	1

Source: UN Comtrade.

AGOA, with its single transformation rules of origin, had a substantial initial impact, stimulating the apparel export sectors in Kenya, Lesotho, and Swaziland. Mauritius and Madagascar had a different trajectory, exporting to both the USA and the EU, the latter's export to the USA market plummeting whenever there was a coup and violating AGOA governance criteria. Mauritius was already an established apparel exporter and AGOA/EBA trade access consolidated its position rather than kick-starting its export growth. Ethiopia emerged as an apparel exporter around 2012 as a direct result of AGOA/EBA preferential access (Morris et al. 2016).

Driving this initial apparel export growth in SSA were lead Asian transnational firms, already well connected within GVCs, which established subsidiary plants in Kenya, Lesotho, Swaziland, Madagascar, and Mauritius (Morris et al. 2016; Staritz et al. 2015). Large, locally owned export-oriented firms in Mauritius emerged out of this dynamic, with some significance in a later period for the growth of Southern African regionalism. In addition, a significant group of previously French citizens who had lived in Madagascar for a generation or more and regarded themselves as Malagasy established a deeply embedded apparel export industry. These 'diaspora' locally owned firms (around 21) were innovative and vibrant exporters to the EU market (Morris and Staritz 2014). Ethiopia's export industry emerged as a result of aggressive GVC-based industrial policy aimed at attracting global buyers and Asian transnational apparel producers and at encouraging integration along its apparel value chain (Staritz et al. forthcoming; Whitfield et al. forthcoming).

Successful as it was in stimulating an apparel export industry, very little of this first wave of entry into GVCs entailed using regional suppliers or feeding into regional markets. However, the

phasing-out of the MFA and the 2008 global economic crisis, with its concomitant decline in exports to these markets, shook up the apparel industry in Southern African countries. It produced a substantial change in Africa's apparel export structure, restructured its focus on the US/EU markets, and led to the rise of a regional end market structure (Staritz et al. 2015).

This new regionalism has been driven by a number of forces (Morris et al. 2016): (i) South Africa emerging as an economic hub and regional end market; (ii) buyers from South African retailers in RVCs taking advantage of tariff-free entry into the South African market (through SADC and SACU trade arrangements) and creating supply chains from Lesotho, Swaziland, Mauritius, and Madagascar; and (iii) new forms of regionally embedded FDI primarily from South Africa (into Lesotho and Swaziland) and Mauritius (into Madagascar).

Preferential access to the South African apparel market changed the nature of the manner in which RVCs facilitated regional integration. Free trade membership of the SACU, with no rules of origin requirement, substantially expanded exports of apparel from Lesotho and Swaziland to South Africa (Morris and Staritz 2017; Morris et al. 2011). Likewise, SADC's preferential trade access, requiring two-stage conversion rules of origin, allowed Mauritian and Madagascan exports tariff-free entry into the South African market (Morris and Staritz 2014). Table 5 highlights the rapid growth of such regional exports, the rise of RVCs connecting countries within this sector, and this new-found Southern African regionalism.

Table 5: Apparel exports to South Africa (US$m)

	2006	2008	2010	2012	2014	2016	2017
Swaziland		0	57	100	133	152	189
Lesotho		2	44	63	93	115	129
Mauritius	21	47	69	148	130	109	115
Madagascar	1	7	18	62	85	92	86
Tanzania		1	2	2	9	7	8
Zimbabwe	6	7	3	1	1	4	7
Total SSA	52	80	234	394	461	484	541

Source: UN Comtrade.

Within a decade, total regional apparel imports into the South African market rose tenfold, from US$52 million US$541 million, amounting to no less than 18.5 per cent of total SSA apparel exports. Essentially, the regional export take-off (for Swaziland, Lesotho, and Madagascar) occurred in 2010, although Mauritius had earlier established a foothold in the South African market. Apparel exports from Swaziland and Lesotho jumped from insignificance to US$57 million and US$44 million, respectively, in 2010, rising progressively to US$189 million and US$129 million by 2017. In Swaziland's case, free access to the South African market, enabled by its membership of the SACU, has completely replaced exporting to the USA, whilst Lesotho has shown export diversification, with (SACU) customs-free exports to South Africa now substantially supplementing preferential AGOA access to the US market. As we will show below, this is not a case of export substitution but of export addition from a new class of apparel suppliers.

Madagascan apparel exports through SADC into the South African market became of some significance in 2010 (US$18m), but the real export take-off occurred in 2012. They rose to US$62 million in that year, hitting US$85 million in 2014, when they seem to have reached a plateau. Apparel exports from Mauritius to South Africa started in 2006 (US$21m) and rose steadily to US$148 million by 2012, but then declined to US$115 million by 2017. There are other countries in the region that are beginning to grow their exports into the South African market, notably Tanzania and Zimbabwe but also to a much more limited extent Mozambique, Botswana, Malawi, and Namibia. However these amounts are relatively insignificant, as in total they amounted to only US$21 million in 2017. Significantly, neither Ethiopia nor Kenya has been able to export to South

Africa, primarily because they are not members of SADC and hence are unable to take advantage of tariff-free entry to this regional market. They are subject to MFN tariffs of up to 45 per cent on apparel, 22 per cent on fabric, and 30 per cent on finished textile goods. With some way to go before the AfCFTA is realized, this situation is unlikely to change soon.

Apart from the importance of trade policy—customs union access (SACU) and SADC preferential rules of origin—in helping the South African market to emerge as a regional economic hub, there are other RVC drivers facilitating the rapid growth of this process of regional integration. When the South African government imposed quotas on Chinese apparel imports in 2007, buyers in the domestic retail chains rapidly sought to diversify their import sources in order to manage risk. Hence, they began to look at apparel-exporting firms in the region as new potential suppliers. The immediate beneficiary was Mauritius, which more than doubled its apparel exports to South Africa within two years (from US$21m in 2008 to US$47m in 2010). By 2010, this policy had also had a major impact on firms in Madagascar, Lesotho, and Swaziland.

This change in retail buying policy cannot be seen as the only driver of this dynamic towards greater Southern African regionalism. Another key driver is the shift in the patterns of firm ownership and the nature of FDI in the apparel-exporting industries in the region. A substantial shift in firm ownership and the emergence of regional FDI substantially restructured the apparel industry and export patterns in these countries.

Three major types of export-oriented firms can be identified in apparel GVCs and RVCs in Southern Africa: transnational investors, regional investors, and diaspora investors. The different apparel-exporting countries demonstrate major differences in the mix of these firm ownership types. These different characteristics are manifested in various levels of regional and local embeddedness, with differential effects on value chain and upgrading dynamics. Embeddedness has three dimensions: societal (rooted in domestic/regional social and economic relations), territorial (geographically extended relations anchoring firms within regional institutional relations), and networked (firms operating within networks/value chains relationships) (Morris et al. 2016).

Transnational investors are primarily based in East Asia (Hong Kong, Taiwan, Korea), but more recently also in China, India, and the Middle East. Their local plants have very little autonomy, and activities are generally limited to basic assembly and CMT (cut-make-trim). The primary drivers for them to invest in SSA were (labour) costs, preferential access to foreign markets (primarily the USA), and special FDI incentives. In terms of Southern Africa apparel exports, these transnational firms still dominate (large-volume CMT) exports from Lesotho to the US market, and play a role in maintaining relatively minor exports to the USA from Madagascar and Mauritius. These transnationals are locked into US value chains and, given their product profile, neither can nor wish to expand into the regional market (Morris and Staritz 2017).

Regional investors have emerged as major drivers of apparel exporting in Southern Africa. The emergence of large locally owned firms in Mauritius signalled a regional investment and sourcing shift. These Mauritian firms sourced apparel and fabric not only locally but also from Madagascar. Moreover, they invested in the Madagascan economy, setting-up subsidiary plants there, and used these to export primarily to the EU, but also to a much lesser extent to the US market. Given the profile of more complex products, shorter lead times, and lower volume production to the EU market, which has similar requirements to the South African market, these Mauritian/Madagascan apparel firms have also developed closer linkages with South African buyers and expanded exports into this regional market (Morris and Staritz 2014; Morris et al. 2016). Another major regional investment shift has occurred through South African investment in the Lesotho and Swaziland apparel industries. Seeking to escape what they regarded as a restrictive domestic labour regime, a

significant number of South African firms relocated their apparel production, moving plants into neighbouring Lesotho and Swaziland, and used this regional tariff-free base and their existing value chain linkages with retail buyers to export their products back into South Africa (Morris and Staritz 2017; Morris et al. 2011; Morris et al. 2016).

There is also a group of locally owned and embedded firms with strong diaspora cultural and value chain linkages to external markets that export to both the EU and South Africa. They are most prevalent in Madagascar, where owners with strong ancestral linkages to France have used their historical, cultural, and linguistic heritage to establish close links to European markets and buyers and export the vast majority of their production to the EU. Since these diaspora firms produce similar products to those required by the South African market, they have also become locked into this new regionalism (Morris and Staritz 2014).

SACU and SADC preferential trade access and rules of origin create an enabling environment for the emergence of regional investors and end markets, but the value chain drivers of these processes lie in regional value chain dynamics. Ownership and embeddedness of firms in RVCs creates socio-political drivers of governance change, end market shifts, and upgrading dynamics. Hence, the regional policy challenge lies in finding mechanisms to support regionally embedded firms and build their capabilities.

4 Can the 'retail revolution' advance 'developmental regionalism' in Southern Africa?

The SADC Industrialization Action Plan approved by the SADC Summit in Eswatini in 2017 identifies agro-processing as a key sector for 'the development of a vibrant agricultural sector that will stimulate domestic and regional production of essential inputs, and improved investment in productive agro-industry value chains' (SADC 2017). Processed food is widely traded but the trade is mainly one-way. In 2017, South Africa exported to the continent five times as much as it imported.

The question that this section explores is how retail chains can become catalysts for supplier development and upgrading in regional value chains and a force for effective implementation of the four pillars of 'developmental regionalism' (Ismail 2018). The role of supermarket chains illustrates the possibilities for supplier development (local industrialization), upgrading in regional value chains, investment in cross-border infrastructure, and good governance (local stakeholder participation, regulation, and private sector–government partnerships through a retailers' charter).

In Western Europe and the USA, increased competition has pushed retail chains (e.g. Walmart, Carrefour, Tesco, Metro AG) to invest abroad, stimulating the globalization of retail and a so-called retail revolution (Altenburg et al. 2016). The debate about the role of retailers in the economic development of developing countries resonates with the earlier debates on the role of FDI in developing countries (Altenburg et al. 2016; Nickanor et al. 2017). Altenburg et al. (2016) argue that the playing field for small producers in developing countries is very uneven, as larger, more technologically sophisticated multinational retailers enter the market and make it difficult for these businesses to compete. But the 'supermarketization' of value chains also gives rise to positive outcomes and can increase productivity, provide more choice to consumers, and improve food safety.

These diverse outcomes are evident in Southern African countries as well (das Nair and Chisoro 2016; Nickanor et al. 2017). The real issue is how developing countries can leverage the presence of these retailers to modernize their retail markets and increase productivity, quality, and consumer

standards. Host countries also need to ensure that their policies and engagement with retailers result in the building of local supply capacity, enabling local firms to upgrade and participate in regional and global supply chains.

The retail revolution in South Africa has followed the trends of other countries, such as the UK, where the buying power and practices of retailers have been criticized for creating onerous conditions for local suppliers and anti-competitive behaviour (Altenburg et al. 2016). The buying power of South African retailers and the stringent conditions imposed on suppliers have also come under increasing scrutiny by researchers (das Nair and Chisoro 2015, 2016, 2017) and the South African Competition Commission (Cheadle 2017).

South Africa's retailers have been expanding across the continent: the top five retailers in Africa in 2015 were South African (Nickanor et al. 2017). Shoprite has a network of 250 stores in the rest of Africa and is followed by Spar and Pick n Pay (Table 6). Woolworths has more than 86 own stores and 33 franchise stores throughout the rest of Africa.. In the rest of Southern Africa, only Botswana has entered the retail space in the region, offering South African companies some competition. According to das Nair and Chisoro (2015: 7), 'A grocery and general merchandise retailer from Botswana, Choppies, has over the last 15 years grown from two stores in Botswana to over 125 stores in Botswana, Zimbabwe, and South Africa, with plans to enter Zambia and Tanzania in 2015'.

Table 6: South African supermarkets in Africa—revenue and number of stores, 2015

Firm	Revenue (US$m)		No. of stores	
	Total	Rest of Africa	SA	Rest of Africa
Pick n Pay	5,332	288 (5.4%)	1,126	116
Woolworths Food	1,785	72 (4.1%)		397 (total)
Massmart/Walmart	6,107	496 (8.2%)	398	35
Spar	4,298	n.a.	1,711	153
Shoprite Supermarkets	7,947	1,311 (16.5%)	1,198	250

Note: Walmart purchased a 51% stake in Massmart in 2011.

Source: Adapted from Kaplan and Morris (2016).

The Economist reflected on this expansion in an article in 2013, arguing that, as African economies expand, South African retailers are poised to lead the growth of the agro-food sector (Nickanor et al. 2017). The access gained by South African food exporters to the retailers has provided a potential platform for the expansion of regional agro-food value chains but the developmental issue that arises is the question of domestic supplier development. The supermarket chains have a longer-term interest in the development of local suppliers as a means of diversifying their supply base. Also, many of their trucks return empty from north of the border to South Africa, the lack of return loads being an important driver of high intra-regional freight rates (Vilakazi 2018). However, supplier development is fraught with problems. The retail chains prefer to deal with large suppliers and are reluctant to partner with smaller firms. Exacting standards and certification, large volume requirements, and competitive pricing make supplying the large chains difficult for local suppliers. A lack of finance to upgrade capacity and delayed payments by the large retail chains are further constraints. It also appears that local suppliers overrate their own capabilities and fail to fully understand the procurement criteria of the retail chains (Phiri and Ziba forthcoming).

South African retailers have also been meeting significant 'soft' and 'hard' barriers in some parts of Africa, particularly further to the north. 'Hard barriers' refers to physical infrastructure and utilities, such as poor road, rail, and port infrastructure and low levels of electrification. Soft barriers include complex government regulations, such as customs, and restrictions on imports and exports (Nickanor et al. 2017). More recently, South African retailers have faced barriers in

the form of local content requirements, import restrictions, and indigenization legislation in several Southern African countries, such as Zambia, Zimbabwe, Botswana, and Namibia (das Nair and Chisoro 2016).

These factors have led to the South African government providing 'good governance guidelines' on regional expansion to South African retailers (Ismail 2018). This initiative seeks to build a partnership with the retailers in their outward expansion into the region and to encourage them to play a positive role in their host countries in support of the 'developmental regionalism' approach of the South African government and SADC.

4.1 South African retailers in Namibia

All South African retail stores have a presence in Namibia—Shoprite, Pick n Pay, and Spar being the major players (Table 7). South African retailers face significant competition from a local Namibian retailer, Woermann Brock, which has deep roots in Namibia. The family-owned business (descendants of German immigrants) has 27 retail stores throughout the country. The capital, Windhoek, alone has approximately 45 supermarkets, of which about 60 per cent are South African and 40 per cent Namibian (Nickanor et al. 2017).

Table 7: Number of supermarkets in Namibia and Windhoek, 2016

	Namibia	Windhoek	
South African	No.	No.	%
Shoprite	53	12	26.7
Pick n Pay	35	3	6.7
Spar	29	4	8.9
Woolworths	6	0	0.0
Massmart/Walmart	4	0	0.0
Fruit & Veg City	4	3	6.7
Namibian			
Woermann Brock	27	6	13.4
Other	na	17	37.6
Total		45	100%

Source: Nickanor et al. (2017, Table 9, p.35), reproduced with the copyright holders' permission.

The great majority of fresh food and vegetable products on the retail shelves have historically come from South Africa. The majority of fresh food and vegetable products, as well as processed food, on the retail shelves have historically come from South Africa. However, wheat and maize flour, pasta products, and processed fresh milk brands have mainly come from Namibia (Nickanor et al. 2017). In Namibia, unlike many other African countries, supermarkets are the main source of fresh and frozen produce, and small and medium businesses in the food and beverage sector face intense competition from the large retail chains such as Shoprite, Woermann Brock, and Pick n Pay (Nickanor et al. 2017). While some large suppliers have been able to take advantage of the presence of large retailers (mainly in the beef and vegetables sector) in Namibia, the bulk of small businesses and farmers have not been successful (Nickanor et al. 2017).

These conditions in the Namibian food and retail sector prompted the Government of Namibia to launch the National Horticulture Development Initiative in 2002 with the objective of 'increasing the local production of fruit and vegetables and [… reducing …] dependence on imported horticultural fresh produce' (EPA Monitoring 2017).

The Namibian Retail Charter, which was launched by the Namibian Trade Forum (NTF)[9] in March 2016, 'aims to stimulate local manufacturing, facilitate meaningful job creation, reduce unemployment, and deliver enduring changes in consumption patterns. Three task teams were assembled for fast moving consumer goods; clothing and apparel; and building material and hardware' (Namibia Economist 2016). The Namibian Retail Charter is voluntary, and the CEO of the NTF admits that this is a challenge for Namibian suppliers. However, she believes that the Charter has helped to raise awareness and understanding of the nature of the retail sector in Namibia (New Era 2018).

The NTF is also leading two important projects in partnership with the retailers: establishing a Barcode Centre to provide accreditation for GSI Barcodes, and building a supplier development programme.

Interviews undertaken in Namibia[10] indicate that the Retail Charter is a valuable instrument that the NTF has used to build partnerships between retailers and local suppliers. Interviews with Woolworths in South Africa[11] confirm the constructive nature of the partnership that was built between the retailer and the NTF in Namibia. Woolworths took up the challenge to source about 50 per cent of its fruit and vegetables from local suppliers and achieved this target over a period of three years. This project has resulted in Woolworths building partnerships with seven local suppliers for its Namibian stores. As a consequence of the support provided by Woolworths, these suppliers have been able to meet the 'high standards of food safety, hygiene and quality that are fundamental requirements for the production of Woolworths Foods'.[12] This account of the efforts undertaken by Woolworths in Namibia to support local suppliers was confirmed by officials representing the NTF.

4.2 Policy implications for retailers and governments

Answering the question of how the retail revolution can be leveraged for transformative industrialization and developmental regionalism requires a comprehensive approach at both national and regional level (Altenburg et al. 2016). The experience of Woolworths indicates that focused and collaborative projects undertaken by retailers in collaboration with local suppliers and the support of the Namibian Government (and its agency, the NTF) can yield positive outcomes. Woolworths was able to build the capacity of seven local Namibian suppliers to meet its demanding food safety, quality, and hygiene standards and develop a long-term partnership with these suppliers.

The AfCFTA negotiations provide an excellent opportunity for both the South African and Namibian governments to engage with their stakeholders on how to ensure that regional integration in Southern Africa is mutually beneficial. South African retailers could create a win–win outcome by building the capacity of small and medium manufacturers, businesses, and farmers in host countries, such as Namibia, to gain access to retailer shelf space and cross-border value chains. In this way retailers can become major catalysts for regional integration in Southern Africa,

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[9] The Namibian Trade Forum (NTF) is an agency of the Ministry of Industrialisation, Trade and SME Development, and its main mandate is to institutionalize public–private dialogue and cooperation.

[10] Interviews with the CEO of the NTF, Ms Ndiitah Nghipondoka-Robiati, and the Director of the Agriculture Trade Forum (a subsidiary body of the Namibian Trade Forum), Anton Faul, were conducted in August 2018.

[11] Interview with Vaughan van Eden, project manager for Namibia, who oversaw the supplier development programme.

[12] Interviews.

strengthening the developmental regionalism approach. For the retailers, building local capacity offers the opportunity to build a more sustainable, consistent, and reliable long-term partnership and establish new sources of supply for both their local and regional supply chains. The Namibian government is running a long-term programme to develop its local suppliers. This started in 2002 with the National Horticulture Development Initiative; more recently the government launched a process of engagement with retailers to build local supply capacity and increase the share of local products on their retail shelves over a three-year period (2013–2016), demonstrating that constructive collaboration between retailers and suppliers supported by government can deliver significant results for all stakeholders. Clearly, if such initiatives are implemented in a heavy-handed way, they become forms of protection and obstruct regional integration. But a balanced approach can encourage effective long-term supplier development in South Africa's neighbouring countries.

5 Can the automotive industry drive regional integration?

Along with the expansion of the middle class, the market for motor vehicles in Africa is growing rapidly, albeit from a low base. However, much of this demand is being met by imports because outside South Africa and certain countries in North Africa production is almost non-existent. In most countries, the market is dominated by imports of (mainly used) vehicles. Will the continent continue to rely on imports or can it develop its own industry, drawing in a number of countries to create competitive regional automotive value chains? And can this huge global industry play a role in driving regional integration?

The automotive industry is scale-intensive. For the sector to grow in Africa, it has to transcend national borders not just in terms of exporting but also in terms of production by developing competitive regional value chains. In considering the potential for the automotive industry in emerging markets, Humphrey and Oeter (2000) use the concept of a viable 'automotive space'. This can take various forms. For instance, China and India comprise large and rapidly growing markets, which have sufficient scale in their own right. Producer countries on the periphery of major markets can create a viable automotive space by integrating into these markets. Mexico in relation to NAFTA is one such example. A more recent case is Morocco, which has attracted a world-scale Renault plant mainly supplying the EU market. According to Humphrey and Oeter (2000: 17), 'For countries which neither themselves constitute large markets nor adjoin such markets, an automotive space could take the form of a regional market where trade agreements grant easier market access to member states and effectively enlarge the market', as per ASEAN and MERCOSUR.

Africa as a whole accounted for less than 1 per cent of global vehicle production in 2017. South Africa and Morocco account for the bulk of African output, but Algeria and Egypt also have established industries. In the rest of Africa outside SADC, a number of countries, including Ethiopia, Kenya, and Nigeria, have small-scale assembly operations. Most of these operations involve minor semi-knocked down (SKD) assembly,[13] with minimal or no local content. Automotive support policies are being developed in several countries and the major multinational firms are investigating corresponding possibilities.

Within SADC, the automotive industry is dominated by South Africa. Since the 1920s, the South African government has expended much effort on building up and protecting its automotive

[13] SKD assembly involves final assembly of partly assembled vehicles. Such plants require minimal investment and generally operate on a very small scale.

industry, with local content requirements dating back to the 1960s. A gradual process of liberalization began with the advent of the Motor Industry Development Programme, which was introduced in 1995. This was followed in 2013 by the Automotive Production and Development Programme (APDP), which stabilized tariffs on imported vehicles at 25 per cent and provides import duty rebates based on local value addition in the supply chain. The industry exported vehicles and components to the value of US$11.6 billion in 2016 (AIEC 2017).

In the other SADC countries there is very little automotive production, and most of them are reliant on imports of (mainly used) vehicles.

- **Angola:** Angola has a potentially large market and has expressed the intention of developing the automotive industry as a part of efforts to diversify from oil production (Cokayne 2016). Currently, there exists some minor SKD assembly in the country.
- **Botswana:** An assembly plant was established under licence from Hyundai in 1993. It benefited from its proximity to South Africa and initially enjoyed some success, but it closed down in 2000 (Zizhou 2009).
- **Mozambique:** The country has a small components production industry together with some very small-scale vehicle assembly.
- **Namibia:** Namibia has also indicated its intention to develop its automotive sector and the industry is one of ten priority sectors in the country's 2015 industrialization strategy, 'Growth at Home'. The establishment of an SKD plant to assemble Peugeot and Opel vehicles was announced in 2018.[14]
- **Zambia:** It was announced with great fanfare in 2016 that China's Gonow would build a US$175 million assembly plant outside Lusaka, but this investment has failed to materialize.[15] This is in line with the familiar pattern that ambitious plans are announced but actual investments turn out to be, at best, small-scale SKD plants.
- **Zimbabwe:** Small-scale production dates back to the import substitution phase of the 1960s. In the 1990s, Willowvale Mazda Motor Industries in Zimbabwe had capacity of 10,000 vehicles per year (Black and Muradzikwa 2004), but it shut down in 2012 following the economic turbulence of the previous years. Small-scale assembly has since restarted, the company establishing a joint venture with the Chinese automaker, BAIC, in 2017.

It is clear, therefore, that within SADC, South Africa is the only country with a production base of any significance, but other countries clearly have an interest in vehicle production, even if their current facilities are essentially SKD plants, which add minimal value and use virtually no domestically produced parts. The result of this unbalanced development is that automotive trade within SADC is overwhelmingly in one direction, from South Africa to other SADC countries. Aided by the SADC Free Trade Agreement, total automotive exports to SADC amounted to US$1.91 billion in 2017, 16 per cent of South Africa's total automotive exports (Table 8).

[14] See 'Namibia to build Peugeot and Opel vehicles' (*Business Day*, 12 March 2018).

[15] See 'Hope dashed for $175m motor assembly plant' (*Daily Nation*, 8 May 2015).

Table 8: South African automotive exports to Africa (US$m)

	2010	2011	2012	2013	2014	2015	2016	2017
SA exports to Africa	2,418	2,754	3,155	3,118	2,912	2,673	2,128	2,227
SA exports to BLNS (*Customs Union*)	1,229	1,143	987	1,274	1,388	1,285	1,134	954
SA exports to SADC excl. BLNS (*Free Trade Area*)	669	813	1,157	994	995	846	721	960
% BLNS	51%	42%	31%	41%	48%	48%	53%	43%
% SADC	28%	30%	37%	32%	34%	32%	34%	43%
% rest of Africa	21%	29%	32%	27%	18%	20%	13%	14%
Passenger & Light vehicles	628	950	1,328	1,761	1,391	1,340	993	975
Medium & Heavy vehicles	105	105	146	280	341	306	272	270
Components	1,684	1,699	1,681	1,077	1,179	1,027	863	982

Source: AIEC (2013, 2015, 2017).

While SADC countries are important export destinations for the South African industry, none features as a significant source of automotive imports into South Africa. Angola, Botswana (wiring harnesses), Lesotho (leather seats), and Zambia collectively supply less than US$100 million of component exports annually to South Africa, illustrating the absence of regional value chains. There has been some relocation of labour-intensive suppliers to Botswana and Lesotho. Lower labour costs and a seemingly more stable labour relations environment, coupled with government fiscal support to the industry in these countries, have made this a viable business decision. The relocation in 2015 of Pasdec, a wiring harness manufacturer, from South Africa to Botswana is evidence of these advantages. While this represents a small step in developing value chains in the region, as South Africa continues to deepen its production base of components, this process can be expected to continue (Markowitz and Black forthcoming).

5.1 Regional automotive value chains in southern Africa?

Eliminating international trade barriers within Africa is essential if the continent is to develop as a location for large-scale automotive investment and production. To illustrate the possibilities, we make a comparison between SSA and India. The total GDP of SSA and India, average per capita income, and population size are of the same order of magnitude. Vehicle market size is also similar. The major difference is in production. India produces its own vehicles, while Africa is largely import-dependent (Black et al. 2017). India is also a significant exporter, especially of small cars and motorcycles. In 2013, net automotive exports amounted to US$8.3 billion. SSA on the other hand, is heavily reliant on imports and, apart from South Africa, exports very little. As a result, SSA had an automotive trade deficit of US$16.3 billion in 2013 (Black et al. 2017). There are, of course, limitations to this rather simplistic comparison but the key difference is that India has an integrated single market that is protected by a high common external tariff complemented by other supportive policies. It has developed a competitive automotive industry together with a strong, integrated supply chain.

This example illustrates that internal free trade, coupled with some protection from imports creates the *potential* for the emergence of competitive regional automotive value chains in Africa. To date they have not developed to any significant extent. This is in contrast to other developing regions such as Southeast Asia, where regional automotive value chains are well established, for instance in the ASEAN group of countries (Kobayashi et al. 2015). As stated above, the only significant automotive trade within SSA consists of exports from South Africa to other countries.

The biggest obstacle to regional integration of the automotive industry is the cost of trade diversion, which is particularly high given the prevalence of low-priced, second-hand cars in most national markets (Black et al. 2017). For automotive industrialization to develop on a regional basis, major limitations would have to be placed on the import of used cars. But why, for instance,

would Mozambicans want to buy cars assembled in South Africa when they have the option of cheap, imported second-hand cars from Japan?

There is an argument that the smaller economies could be drawn into the regional value chain as suppliers of major components for cars assembled in South Africa. To some extent this is what has happened in MERCOSUR and ASEAN, where the automotive industry has played a leading role in driving regional integration. In ASEAN, in particular, there has developed a degree of specialization and complementation involving Thailand, Malaysia, Indonesia, and Philippines. But there is an important distinction with SADC. The aforementioned ASEAN countries are all medium to large markets and all have a history of automotive production. The small Southern African automotive cluster is already spread across three major locations (Gauteng, Durban, and the Eastern Cape), all of which are in South Africa. It is unlikely that many more such clusters will emerge in the Southern African region, at least in the short to medium term. Even Lesotho, with its central location with respect to the major car-producing regions in South Africa, struggles to persuade parts makers to invest in the country given the extremely demanding quality and delivery reliability standards that exist in the automotive sector (Black 2017). For some of the countries in the region, the production of parts for the aftermarket may offer an industrialization opportunity. There may also be scope for automotive industry cooperation between the larger economies in their respective regions, for example, Nigeria, Kenya, and South Africa. But distances and especially transport costs are high between these countries.

Nevertheless, the South African industry could assist in transferring skills and industrial capabilities to the region. The imperative lies in the economies of scale and increased foreign investments that are realized in the long term from developing integrated regional value chains. Even in the short term, the development of automotive industries outside South Africa gives South African component manufacturers the opportunity to export to infant assembly operations in the region. One potentially important development is the creation of the African Association of Automotive Manufacturers (AAAM), which has been driven by South Africa-based vehicle producers. This association seeks to provide support to automotive industries on the African continent and is primarily focused on promoting collaboration with Nigeria but is also looking to involve Algeria, Angola, Ghana, Egypt, Ethiopia, Kenya, and Morocco. However, to date this initiative seems to be placing emphasis on arrangements that encourage the development of SKD assembly facilities, which yield little value.

Regional integration is essential for Africa to develop a significant automotive industry. But the obstacles are considerable. The political geography of the continent and the tendency of the industry to cluster in a few locations, which in turn develop key agglomeration advantages, mean that many smaller countries would find it hard to attract investment. It will therefore be difficult for the automotive sector to drive regional integration independently of a broader integration process that develops regional value chains in a range of sectors within the context of a larger common market, as envisaged in the AfCFTA negotiations.

6 Conclusion

This paper draws on a combination of trade data analysis and industry case studies to better understand the links between regional value chains and regional integration. The macro trade data provide a picture of the incipient development of regional value chains in Southern Africa—evident, for example, in the much higher content of manufactured goods in intra-regional (compared to extra-regional) exports and the growing exports to South Africa from the rest of the region. Viewing these important developments through a sectoral prism indicates that they not

only demonstrate the benefits of regional integration to date but also powerfully support the case for ongoing steps to dismantle barriers between the countries of the region. They also present an opportunity to drive industrialization through the development and participation of SADC countries in regional and global value chains.

The emergence of this 'new regionalism' in Southern Africa highlights a number of key points. Preferential regional trade access (e.g. SADC, SACU) is critical, but so is preferential access to export markets (AGOA, EBA, EU). In the apparel sector, significant capacity was created by exporting into the EU and the USA. A second wave of regional investment has fuelled upgrading and exports to South Africa. Embedded ownership and regional FDI have been important for the growth of apparel RVCs and, via the spread of supermarket chains, are starting to play a similar role in the food sector. The existence of a regional economic hub is an important condition for the growth of regional markets. South Africa plays this role; having well resourced firms and a large and demanding market, and being a source and conduit for FDI, it can help drive upgrading in the region. Slow growth in South Africa over the last decade has been a major limiting factor. South Africa also needs to improve the market access of final goods, which in many cases remain constrained by restrictive rules of origin.

Regional integration can be boosted by strong private-sector pressure on governments. For this to happen, private-sector players need to have strong commercial interests in regional market access and the lowering of other barriers, together with improved cross-border infrastructure. The long-term sustainability of Southern African regionalism depends on the recognition of the importance of regional industrial policy that takes account of the dynamics driving global and regional value chains and facilitates regional linkages across all these sectors.

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