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## Regional Value Chains Are Not a Substitute for Global Value Chains: Strategies for African Industrialization

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### Abstract

*The rise of protectionism and surging tariffs in major economies has reshaped global trade dynamics, posing both risks and opportunities for African economies. While regional value chains (RVCs) under the African Continental Free Trade Area (AfCFTA) can act as a catalyst for intra-African trade and industrialization, they cannot fully replace integration into global value chains (GVCs), which remain crucial for acquiring advanced technologies and know-how, attracting investment, and enhancing competitiveness. This paper explores strategic approaches African businesses must adopt to leverage both regional and global networks, highlighting how a balanced engagement can support sustainable industrialization and enhance systemic competitiveness.*

**Keywords:** Global value chains; Regional value chains; AfCFTA; Trade uncertainty; Tariffs

### INTRODUCTION: GLOBAL TRADE CONTEXT AND IMPLICATIONS FOR AFRICA

Since the onset of the new United States (U.S.) administration in early 2025, global trade dynamics have undergone a marked transformation. The U.S. introduced new, differentiated tariffs<sup>1</sup> on imports from nearly all trading partners, with developing countries bearing the steepest increases (UNCTAD, 2025a). As a result, average U.S. tariff rates rose from 2.8% prior to 2025 to over 20% by early September 2025 (UNCTAD, 2025b). The World Bank (2025) warned that protectionist and inward-looking policies in major economies may intensify, potentially through an escalation of retaliatory measures. Such developments risk depressing export prices in major goods-exporting countries and increasing competitive pressures on domestic producers elsewhere, amplifying challenges for investment and industrial development, particularly in developing regions.

<sup>1</sup>These tariffs are not uniform across countries or products, but vary depending on the bilateral trade deficit that the U.S. runs with each country or customs territory. Under the logic of so-called “reciprocal” tariffs, countries with large and persistent trade surpluses against the U.S. are subject to higher—sometimes punitive—tariffs, on the argument that they were reaping disproportionate benefits from access to the American market while offering limited opportunities for U.S. exports. By contrast, partners with small or balanced trade flows face comparatively lower tariff levels.

For African economies, these global shifts coincide with a growing dependence on integration into value chains as a driver of sustained growth. Global value chain (GVC) participation provides access not only to foreign markets, but also to exogenous technology, knowledge, and capital. Empirical evidence supports this link. Nana and Tabe-Ojong (2023), analyzing a panel of 48 African countries from 1990 to 2016 by using multiple econometric approaches, found that the growth effects of GVC participation are highly asymmetric. In particular, they distinguished between forward and backward participation. Forward participation occurs when African economies supply intermediate inputs (such as raw materials or semi-processed goods) that are incorporated into other countries’ exports. Backward participation, in contrast, involves importing intermediate goods for domestic use and subsequent re-export. In Africa’s case, evidence shows little or no positive effect from this model. This is partly because such imports often involve low levels of domestic value addition, with structural dependence on foreign inputs. For example, several African apparel exporters import the majority of their textiles from Asia, assemble garments locally, and re-export them under preferential schemes like AGOA<sup>2</sup>, a structural vulnerability that is particularly evident in export-oriented economies such as Lesotho (Marie-Nelly and Baskaran, 2021). Similarly, Zambia’s copper sector illustrates backward participation in

a resource-intensive context. Although Zambia produced 698,000 metric tons of copper in 2023 (making it the seventh-largest global producer and the second-largest in Africa), its domestic smelting and refining capacities are still today highly constrained (CSIS, 2024). This limits opportunities for local value addition and downstream industries, such as copper wire and battery production. To address these challenges, Zambia aims to expand production to 3 million metric tons by 2032, but achieving this will require substantial investment in refining capacity, technology, and workforce skills. Without these enhancements, much of the value from Zambia's copper will continue to accrue to foreign processors, highlighting the developmental limits of backward participation despite its role in generating jobs and export earnings.

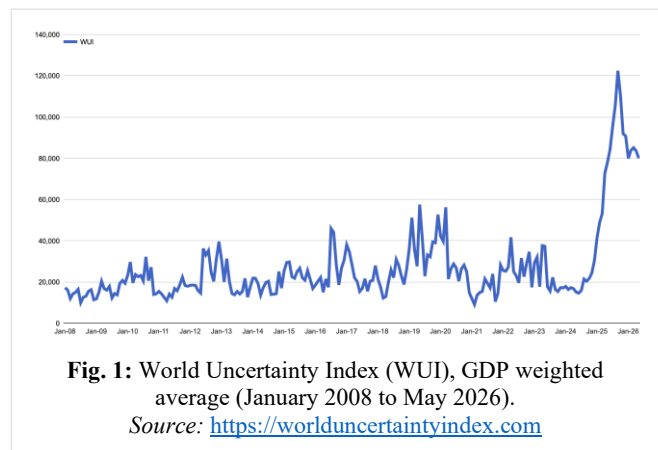
These findings suggest that the developmental payoff of value chain integration depends not only on participation per se, but on the ability of economies to strategically position themselves in higher-value segments, pursue upgrading opportunities, and align participation with broader industrial and trade policy frameworks.

Recent conceptual contributions further refine this understanding. Boys and Andreoni (2023) introduce the notion of value chain directionality, emphasizing that the type of value chain—national (NVCs), regional (RVCs), or global—shapes firms' opportunities for functional upgrading and structural transformation. Firms integrated into GVCs tend to specialize in narrower activities but operate closer to the technological frontier, thereby offering stronger prospects for product and process upgrading. Conversely, firms embedded in NVCs and RVCs often perform a wider range of functions, including production, design, and branding, but encounter more limited pathways for functional upgrading. Importantly, RVCs can serve as intermediate “learning grounds”. Newman *et al.* (2016) argue that participation in RVCs enables firms to build capabilities in technical expertise, process management, and market linkages: capabilities that can later facilitate more competitive and sustained integration into GVCs.

Taken together, these insights highlight a paradox and a policy challenge: while global trade headwinds (driven by escalating protectionism) pose risks to African export performance, strategic engagement with value chains, especially through forward linkages and regional learning platforms, remains a critical pathway for industrial upgrading and long-term growth.

### Trade Uncertainty

Beyond tariffs, elevated uncertainty in global trade policies further destabilizes African economic prospects (UNCTAD,



2025c). The World Uncertainty Index (WUI)<sup>3</sup> developed by Ahir *et al.* (2020) reached record levels in 2026 and remained exceptionally high in 2026, as illustrated in Fig. 1. This sustained increase reflects an elevated unpredictability in trade, investment flows, and policy regimes. This uncertainty increases operational costs of businesses, unsettles markets, and disproportionately affects countries with limited capacity to absorb shocks, reducing investor confidence and discouraging long-term capital inflows (UNCTAD, 2025d). Combined with rising tariffs, it complicates African firms' participation in both RVCs and GVCs.

### Staged Progression Through Value Chains

Firms often progress through national, regional, and global value chains as they build capabilities and accumulate experience. This progression is not strictly linear: depending on sectoral dynamics, firm strategies, and institutional or market conditions, businesses may skip stages, move back and forth, or engage simultaneously in multiple value chain levels (Lema *et al.*, 2018).

NVCs allow firms to consolidate foundational skills, strengthen production capabilities, and often establish vertical integration, controlling activities from sourcing raw materials to manufacturing and distribution. For example, a Kenyan textile firm may start by producing yarn, weaving fabric, and manufacturing garments domestically, thereby mastering quality control and coordination before expanding into regional or global markets.

RVCs represent the next stage, enabling firms to undertake more complex functions, tap into cross-border networks, and strengthen competitiveness. They provide opportunities for firms to consolidate capabilities, refine production coordination, enhance quality management, and develop the operational and managerial skills necessary for eventual integration into GVCs (Kouty and Ongono, 2017). Continuing the Kenyan textile example, the firm could export semi-finished products (such as fabric or partially assembled garments) to neighboring countries, where additional design,

<sup>2</sup>The African Growth and Opportunity Act (AGOA) is a U.S. non-reciprocal trade preference program established in 2000 to enhance market access for qualifying sub-Saharan African countries by allowing duty-free exports of certain goods to the United States. AGOA aims to promote economic growth, investment, and integration of African economies into global trade. Eligibility is conditional upon compliance with statutory criteria relating to, *inter alia*, the rule of law, market-based economic policies, political pluralism, internationally recognised worker rights, and respect for human rights. Under current legislation, the programme is scheduled to expire on 31 December 2026.

<sup>3</sup>The WUI is an indicator that quantifies economic and political uncertainty by analyzing with which frequency the term “uncertainty” appears in country reports published by the Economist Intelligence Unit (EIU). These reports are a flagship research papers providing in-depth analysis and forecasts of the political, economic, and policy conditions for nearly 200 countries worldwide.

finishing, or assembly occurs before entering regional markets.

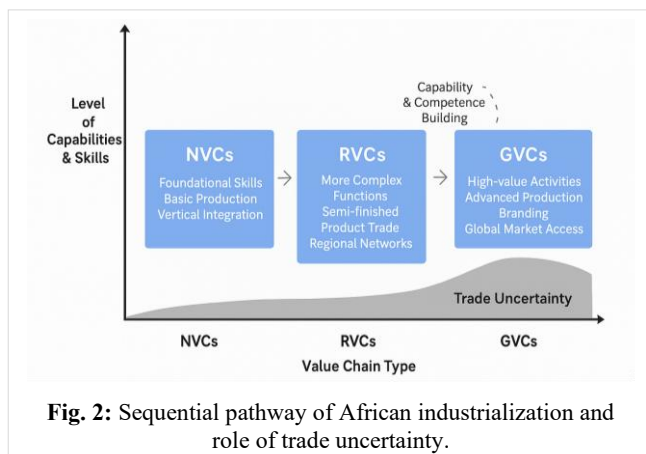
GVCs provide the highest level of integration, granting access to advanced product development, branding, technologically sophisticated production, and expanded market opportunities (Humphrey and Schmitz, 2002). Crucially, firms participating in GVCs carry out specific stages or tasks in the production process where they have a comparative advantage or have gained specialization, such as component assembly, packaging, or niche design inputs. Such fragmentation of production makes it possible for firms in developing countries, even small ones, to enter foreign markets at lower cost and progressively move toward higher-value functions as their capabilities expand (Coulibaly *et al.*, 2022).

The progression from NVCs to RVCs and ultimately to GVCs is highly sensitive to external shocks. Rising tariffs and trade uncertainty increase costs, disrupt supply chains, and constrain investment, disproportionately affecting firms in developing economies. Conversely, lower tariffs on key inputs are strongly correlated with faster economic development, highlighting the importance of complementary trade and industrial policies in supporting global market integration (WB, 2020; Kowalski *et al.*, 2015). While GVCs are particularly vulnerable to such shocks, NVCs (and to a lesser extent RVCs) tend to be more resilient (UIBE *et al.*, 2023).

Fig. 2 summarizes this staged progression, illustrating that GVCs are more exposed to tariffs and uncertainty, whereas NVCs and RVCs provide relatively safer environments for capability development, enabling firms to consolidate skills, strengthen operations, and establish market linkages that serve as stepping stones toward global integration.

## CHALLENGES TO AFRICA'S INTEGRATION INTO GVCs

Rising global protectionism and policy uncertainty present major obstacles to Africa's participation in GVC, potentially undermining economic growth. Multinational corporations typically respond to higher tariffs by reshoring production, relocating supply chains closer to consumer markets, or moving investments to more favorable locations (Grossman, *et al.*, 2024). While some countries—such as Mexico—have successfully leveraged trade disruptions to attract



**Fig. 2:** Sequential pathway of African industrialization and role of trade uncertainty.

manufacturing investment under preferential agreements like USMCA (Shokri, 2024), such cases are exceptions. For most developing countries, tariff increases raise trade costs, reduce export competitiveness, and discourage long-term investment (UNCTAD, 2025c). Investors increasingly avoid markets perceived as high-risk—such as many African nations—which exacerbates vulnerabilities in fragile economies. Moreover, declining industrial activity in advanced economies reduces global commodity demand (UNCTAD, 2025e), leaving commodity-dependent African countries exposed to volatile markets, lower export revenues, and limited industrial upgrading (UNCTAD, 2025f).

Despite the opportunities offered by GVCs, African businesses have historically struggled to integrate competitively. While exports and export values have expanded over time, the continent's overall share in global value chains has steadily declined. Manufacturing remains weak despite decades of protectionist policies, services face intense competition from more advanced economies, and natural resources continue to be exported largely in raw form with minimal value addition (AERC, 2025).

This limited and declining GVC integration underscores the urgency of structural reforms to enhance competitiveness. Key reform areas include:

- *Trade policy:* lowering tariffs on intermediate inputs, reducing non-tariff barriers, and facilitating customs harmonization to improve competitiveness;
- *Infrastructure and logistics:* investing in reliable transport, ports, energy, and digital infrastructure to reduce trade costs and enhance connectivity;
- *Skills and innovation:* strengthening vocational training, technical education, and research and development (R&D) to build the human capital needed for industrial upgrading;
- *Access to finance:* improving firms' ability to obtain affordable credit, investment capital, and financial services to support scaling, technology adoption, and participation in higher-value segments of value chains;
- *Regulatory and governance frameworks:* ensuring predictable regulatory frameworks, efficient trade facilitation, and investment-friendly environments that can attract and retain capital;
- *Industrial policy alignment:* targeting high-potential sectors (e.g., textiles, agro-processing, pharmaceuticals, and green technologies) where Africa can gradually diversify away from commodity dependence.

Ethiopia provides a practical example of how targeted reforms can drive GVC integration and sustain export growth. Through strategic investments in industrial parks such as Hawassa, preferential investment regimes, improved transport infrastructure<sup>4</sup>, reliable energy, and recent

<sup>4</sup>According to the Ethiopian Roads Administration, Ethiopia expanded its road network from 26,500 km in 1997 to over 169,000 km in 2023. Xinhua: 30 August 2024. <https://english.news.cn/20240830/0de47a09734a4993b7061afa26717af/c.html>

streamlining of customs procedures (Yoseph, 2026), the country succeeded in attracting leading global apparel firms and integrating local producers into international supply chains (Worku and Muchara, 2024). Although challenges persist (including logistics constraints, foreign exchange shortages, political instability, and export declines following the 2022 AGOA suspension), Ethiopia's experience shows that structural reforms and infrastructure development remain central to advancing GVC participation.

### THE AFRICAN CONTEXT: TARIFFS, INVESTMENT, AND REGIONAL INTEGRATION

Sectors such as textiles, automotive, pharmaceuticals, and agro-processing are critical for Africa's industrialization and economic diversification (AfCFTA Secretariat and UNDP, 2021). However, high tariffs on inputs and finished goods—such as steel, textiles, and agro-food products—impose structural barriers to value-added production and reinforce dependence on unprocessed commodity exports. Tariff escalation, where processed goods face higher duties than raw materials, further discourages industrial upgrading and limits technological learning (UNCTAD, 2021; UNCTAD 2025g).

Recent protectionist trends have heightened these challenges. Tariffs on African exports of agricultural products, textiles, and metals increase uncertainty and reduce investor confidence. South African automotive producers, for example, have raised concerns that U.S. trade barriers threaten export volumes, disrupt supply chains, and undermine competitiveness in global markets. Similarly, East African textile exporters remain vulnerable after the expiration of preferential schemes such as AGOA (Manduna, 2024), a fragility highlighted by the disruption of Southern African apparel networks during external shocks (Pasquali and Godfrey, 2022). These developments underscore Africa's fragility in GVCs, especially when market access relies on preferential treatment rather than domestic capabilities.

The African Union has highlighted that rising tariffs and unilateral trade measures threaten the AfCFTA's goals of investment-led industrialization and continental market integration (AU, 2021). While the AfCFTA does not explicitly mandate the promotion of RVCs, its design—including flexible rules of origin<sup>5</sup>—encourages intra-African sourcing of value-added inputs, fostering industrial development and production diversification (Ajibo and Kaime, 2025). Complementary AfCFTA initiatives, such as progressive tariff elimination, customs harmonization, and simplified trade regulations, aim to strengthen regional trade, investment, and value chain development. By fostering intra-regional sourcing, these rules aim to promote industrial development through diversification and upgrade of their production processes.

<sup>5</sup>Rules of origin typically require that a minimum percentage of a product's value be added within the region for it to qualify for preferential treatment (e.g., reduced or zero tariffs). This incentivizes firms to source inputs from neighboring countries rather than importing them from outside the region, directly linking suppliers and manufacturers within the RVC.

Despite this, African RVCs remain largely concentrated in extractive industries, such as mining and raw materials (Stuart, 2022). This narrow focus limits opportunities for value addition and industrial upgrading, highlighting that RVCs alone cannot drive rapid and sustainable industrial development. To achieve diversified and resilient growth, African economies must strategically link domestic firms to global value chains while reinforcing regional integration.

### BENEFITS OF GLOBAL VALUE CHAIN PARTICIPATION

Participation in GVCs offers African firms multiple advantages, including technological learning, capital infusion, competitive integration, and job creation (Gereffi *et al.*, 2005; OECD, 2018; UNECA, 2010). Beyond these benefits, GVC engagement promotes innovation, product diversification and digital technology adoption, enhancing overall industrial capabilities. RVCs and GVCs function as sequential and mutually reinforcing stages: RVCs allow firms to consolidate production, achieve economies of scale, and develop managerial and operational skills, laying the groundwork for eventual GVC integration.

For instance, Krishnan (2017) notes that Kenyan flower exporters typically start within regional networks—sourcing inputs locally, consolidating shipments, and ensuring they meet high-quality standards—before reaching European markets. In Europe, they mainly supply finished flowers, while importers handle distribution, marketing, and sales. Although their GVC participation is limited, this progression shows how RVCs serve as a stepping stone, helping firms build production skills, improve efficiency, and prepare for the higher demands of global markets.

Nevertheless, direct GVC participation remains challenging for many African firms due to small production scale, limited access to finance, weak infrastructure, logistical bottlenecks, and difficulties meeting international standards. Intermediary trading companies can help overcome these barriers by aggregating products from multiple producers, managing cross-border logistics, and providing financial, technical, and marketing support. By doing so, they reduce transaction costs, mitigate market risks, and enable smoother integration into both regional and global markets.

A particularly promising initiative in this regard is the African Trade and Distribution Company (ATDC), launched during the Intra-Africa Trade Fair (IATF) 2025 in Algiers<sup>6</sup>. Established by the African Import-Export Bank (Afreximbank) in partnership with a consortium of public and private investors active across the continent, the ATDC is designed to facilitate large-scale trade in raw materials, minerals, and value-added products within Africa. The concept is inspired by Japan's *sōgō shōsha model*—large general trading companies that played a pivotal role in Japan's post-war industrialization. These firms coordinated production, logistics, investment, and market access across

<sup>6</sup>Africa 24, Afreximbank launches new entity to promote large scale trade in value-added goods. September 9, 2025. <https://africa24tv.com/afreximbank-launches-new-entity-to-promote-large-scale-trade-in-value-added-goods>

multiple industries, linking domestic producers to global markets while managing complex supply chains (Ryan, 2017). In a similar fashion, the ATDC integrates product aggregation, logistics, and financing services to help African businesses scale their operations and participate more competitively in both regional and global value chains.

Unlike traditional trading companies that simply buy and resell goods, ATDC is designed to offer a range of supportive services for suppliers. These include trade financing (advancing funds or providing credit), risk management tools (insurance and hedging against currency or commodity fluctuations), and logistics financing (covering storage, transport, and distribution costs). By addressing both financial and operational constraints, the ATDC helps overcome one of the most significant barriers to African firms' participation in global value chains: limited access to finance. At the same time, it reinforces the enabling conditions for regional integration and industrial upgrading.

### GEOPOLITICAL FRAGMENTATION AND FRIENDSHORING

Rising tariffs and protectionist measures are accelerating the broader trend of geopolitical trade fragmentation. One prominent manifestation of this trend is “*friendshoring*”, whereby countries and multinational corporations concentrate investment and supply chains within politically aligned economies (Attinasi *et al.*, 2023). For Africa, where roughly 85 percent of countries remain heavily commodity-dependent (UNCTAD, 2025h), this trend presents a double-edged challenge. On one hand, integration risks being driven less by competitiveness, production capabilities, or comparative advantage, and more by external political and strategic considerations. This exposes African economies to abrupt shifts in priorities, undermining policy autonomy and long-term industrial upgrading.

On the other hand, geopolitical fragmentation creates opportunities: as multinational firms diversify away from traditional hubs, Africa could attract investment by positioning itself as a reliable, strategically neutral partner. Developing robust RVCs (particularly in high-potential sectors such as textiles, agro-processing, pharmaceuticals, and green technologies) can absorb these investment flows while fostering industrial learning and capability-building. RVCs can also serve as stepping stones toward GVCs, helping to reduce exposure to external shocks. Africa's strategic combination of strengthening RVCs and selective participation in global markets will determine its ability to transform geopolitical fragmentation into an opportunity for industrial development, economic resilience, and diversification.

According to a study from Thiele *et al.* (2025) Africa stands to benefit from the potential relocation of European production activities, driven by firms' search for secure, cost-effective, and resource-rich locations. Several structural factors make the continent an attractive option for such investment shifts:

1) *Resource endowments*: Africa holds abundant reserves of natural resources such as cobalt, lithium, and manganese,

which are essential for Europe's green transition. European businesses are actively pursuing such resources, motivated by ambitious frameworks like the European Green Deal 2019, which aims to make the EU climate-neutral by 2050.

- 2) *Competitive labor costs*: Many African countries offer low unit labor costs relative to traditional manufacturing hubs, providing a potential advantage for labor-intensive production.
- 3) *Geographical proximity*: Africa's closeness to Europe facilitates lower transportation costs and faster delivery times. Gravity model analyses consistently show a strong positive correlation between geographical proximity and trade flows.
- 4) *Cultural and linguistic ties*: Historical colonial links and shared languages, together with comparable business norms and organizational practices (i.e., business homogeneity), can lower coordination costs and make it easier for European firms to integrate parts of their production processes in Africa.

A scenario analysis highlights the potential for European value chains to shift toward Africa. In light of China's dominant position in critical raw materials, the study suggests that the EU could partially relocate its cobalt and lithium sourcing to African countries such as the Democratic Republic of Congo, Zimbabwe, and Morocco. At the same time, rising labor costs in China's textile and apparel sector create an opportunity for African nations (particularly Ethiopia, Madagascar, and Mauritius) to capture a larger share of EU clothing imports by leveraging industrial parks and specialized manufacturing hubs.

However, the study also emphasizes that a substantial shift of European GVCs toward Africa will be possible only if the continent significantly improves its investment climate. While the AfCFTA can help by reducing market fragmentation and supporting regional supply chains, further measures are essential. In particular, African countries need to focus reforms on the development of:

- reliable infrastructure to facilitate transport, energy, and logistics;
- skilled and well-trained labor capable of meeting international production standards; and
- stable institutions that promote transparency, enforce contracts, and provide policy predictability.

Beyond these fundamentals, overcoming Africa's historical role as a supplier of raw materials requires targeted investment in value-added processing and manufacturing industries. This involves streamlining business licensing and permitting procedures, implementing tax and financial incentives to attract investment, and developing programs that help local firms meet the quality and compliance standards demanded by larger manufacturing partners.

By pursuing this focused and comprehensive approach, African countries can participate in EU value chains on more equitable terms, fostering industrial diversification,

economic resilience, and a self-sustaining development trajectory.

## CONCLUSION

Protectionist waves in major economies threaten Africa's integration into global markets at a pivotal moment for industrialization. While RVCs provide a foundation for industrial development (enabling firms to consolidate production, enhance operational capabilities, and strengthen regional linkages) they cannot replace the benefits of participation in GVCs. Africa's economic growth therefore depends on a combination of inward reforms and outward strategies: embedding firms in global networks while simultaneously reinforcing regional value chains.

From a policy perspective, this calls for a dual strategy. Governments should strengthen local and regional production networks through investments in infrastructure, improved access to finance, and targeted training programs, while also creating incentives for firms to engage with GVCs once they are ready. Such incentives should address both supply-side constraints (e.g., enhancing firm capabilities, improving product quality, and achieving sufficient scale) and market-access barriers, including reducing trade costs, streamlining regulations, and mitigating investment risks. Recognizing NVCs and RVCs as complementary stages in industrial development allows policymakers to help African firms gradually build production, managerial, and operational capacities, thereby enhancing industrial resilience and maximizing the developmental impact of trade.

Initiatives like ATDC demonstrate how *sōgō shōsha*-inspired structures can facilitate global market participation, reducing logistical and financial barriers for African producers. Combined with strategic investments in infrastructure, human capital, governance, and the effective implementation of AfCFTA, such initiatives can help transition Africa from a peripheral actor to a competitive hub of diversified and resilient value chains.

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## Conflict of Interest

The author declares that there is not any conflict of interests regarding the publication of this manuscript. In addition, the ethical issues, including plagiarism, informed consent, misconduct, data fabrication and/ or falsification, double publication and/or submission, and redundancy, have been completely observed by the author.

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