Global Value Chains (GVCs) and prospects for growth: South Africa at the crossroads

South Africa may be losing out from the seismic developments in global trade called Global Value Chain. This shift in the way countries trade with one another should not be ignored by South African trade policymakers and practitioners. This was the main warning of the **WTO-TRADE round table** event convened by the **North-West University's TRADE research entity** on the Potchefstroom campus last week. Conducted under the banner of the university's **WTO Chairs Programme** and attended by senior academics, government trade experts and members of the business community, the round table lifted the lid on many of the challenges that developing countries – and South Africa in particular – are facing in their quest to take advantage of global value chains.

"Conflicting economic priorities at home and an outdated industrial policy are among the many hurdles that South Africa is facing in the GVC arena," said **Prof Wilma Viviers, leader of the TRADE research entity and WTO Chair at North-West University**. "Manufacturing is no longer the main contributor of value-added. Products are being designed, manufactured, assembled and distributed in different countries – a process known as 'slicing up the value chain'. Yet South Africa's industrial policy is aimed at beneficiating raw materials and stimulating manufacturing that is labour-intensive. Such a policy stance suggests a centralised production approach, which is out of sync with the move towards focusing on those elements of the value chain that deliver realistic competitive advantages."

Prof Peet Strydom, an extra-ordinary professor in the TRADE research entity, one of the speakers at the round table, explained that a country could upgrade its value-added position in a GVC by moving upstream or downstream, away from fabrication – which, in fact, is a low value-added activity but where South Africa's focus tends to be. Prof Strydom added that a country needs to be in good shape at the macroeconomic and microeconomic level in order to take advantage of the opportunities offered by GVCs. Unfortunately, South Africa falls short in many respects.

"Global value chains are interested in countries that are showing positive economic growth trends," said Prof Strydom. "South Africa's growth, though, is deteriorating. We also have an 'unfriendly' regulatory climate that is off-putting to investors (both local and international), while our labour market is very disappointing from a GVC point of view – which is painfully apparent in the high levels of industrial action that we have been seeing over the last few years."

Worryingly, a WTO study on 30 developed and developing countries during the period 1995–2009 showed that all of the countries surveyed – except South Africa and Cambodia – had increased their participation in GVCs. "Considering the benefits that GVCs can bring developing countries in terms of employment, technology transfer and improved economic growth, South Africa's performance is nothing short of dismal," remarked Prof Strydom. On a more positive note, though, he said that South Africa could be justifiably proud of its automotive industry which has successfully linked production by foreign subsidiaries and domestic component manufacturers as well as technology transfer in a globally-connected value chain. Cooperation with multinational corporations (MNCs) has been fundamental to the South African automotive industry's success to date. "Whether you like it or not, GVCs are driven by multinationals," said Prof Strydom.

"The dominant role played by MNCs in GVCs has both advantages and disadvantages", said **Prof Ludo Cuyvers, extra-ordinary professor in the TRADE research entity and of the University of Antwerp in**

Belgium. "While MNCs bring capital, expertise and influence in global markets, they can be footloose (i.e. have a tendency to come and go) and do not always build skills on the ground in their host countries. There is also the risk that MNCs will bring lower-value 'slices', which reduce the ultimate economic benefits derived from GVC participation."

When it comes to South Africa's trade policy, no explicit reference is made to GVCs or to the fact that intermediate goods are the mainstay of the whole GVC phenomenon. Furthermore, services hardly feature in the country's trade policy, even though they play a significant role when GVC participants are attempting to upgrade to higher value-added production, either upstream or downstream from fabrication. South Africa's trade policy is largely subservient to industrial policy and is centred on the promotion of exports from certain 'strategic' industries that have significant job creation potential. Whether such an approach will deliver sustainable, long-term results is debatable. As Prof Cuyvers pointed out, "locally-supplied products can be exported if they give rise to realistic export opportunities in foreign markets. If they lack such potential, there is no point in supporting them from an export promotion perspective. Moreover, devising an export promotion strategy can become complicated when the target sectors have heavy MNC involvement because the organisations themselves will decide how to sell, where to sell, etc."

Mr Livhuhani Mukhithi of the dti (Department of Trade and Industry) expressed the concern that a private sector is emerging in South Africa whose capital is not being used to benefit the country as a whole. While he was referring specifically to foreign MNCs operating in South Africa, the same could be said of large South African companies that are moving the bulk of their operations to other countries perceived to have a less restrictive business climate. The decision by a pharmaceutical giant, to relocate its manufacturing facility to Mauritius is an indictment of South Africa's ability to attract and retain long-term investment. Equally unsettling, said **David Liebenberg, Custom and Excise expert**, is the fact that South Africa is losing its 'gateway to Africa' status because of escalating bottlenecks on the logistics front and the associated high costs of trade.

Clearly, government and the private sector in South Africa need to work towards acquiring a better understanding of each other's concerns about the economy and trade so that together they can achieve greater consensus on the way forward. "The corrosive factor is unpredictability and uncertainty," said **Prof Raymond Parsons of North-West University's Potchefstroom Business School**. "If you want more certainty and predictability, you must stick to the agreed framework, which is the National Development Plan (NDP)." Prof Parsons went on to say that every new plan going to Parliament should be interrogated against the NDP. He also emphasised that cooperation and trust flow from proper consultation. "Don't drop bombshells on the private sector," said Prof Parsons. "When something is still a gleam in the government's eye, that is the time to start talking to the private sector."

As a follow up to the WTO-TRADE round table, participants will compile a policy brief for selected government stakeholders, outlining key areas of concern regarding South Africa's GVC participation challenges and suggesting certain action steps to tackle some of the more 'manageable' hurdles in the short to medium term. Further round tables are being scheduled by the North-West University over the next few months under the auspices of the WTO Chairs Programme.

For more information about the work of North-West University's TRADE research entity and the WTO Chairs Programme, contact Prof Wilma Viviers on: wilma.viviers@nwu.ac.za.