

# **The potential of ACP countries to participate in Global and Regional Value Chains:**

## **A Mapping of Issues and Challenges**

Study for

**Programme Management Unit (PMU)**

**ACP MTS Programme**

Jena

January 17, 2014

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\* The authors wish to thank Anabel González, Junior Lodge, Jan Rieländer and Ivan Oliveira for very helpful comments on an earlier version. Remaining errors are the responsibility of the authors.

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## Acronyms

ACP	African, Caribbean and Pacific Group of States
BPO	Business Process Outsourcing
CPI	Corruption Perception Index
DRC	Democratic Republic of the Congo
EU	European Union
FDI	Foreign Direct Investment
GCI	Global Competitiveness Index
GET	Global Enabling Trade Index
GVC	Global Value Chain
HDI	Human Development Index
ITES	Information Technology-enabled Services
KOF	Konjunkturforschungsstelle Zurich
LPI	Logistics Performance Index
MNC	Multinational Corporation
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
RVC	Regional Value Chain
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
US	United States
WEF	World Economic Forum
WTO	World Trade Organization
ZMMGT	Zambia-Malawi-Mozambique Growth Triangle

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## 1 Introduction

International trade has changed dramatically since the 1980s. Due to enormous reductions in transportation and communications costs and to world-wide liberalization of trade in goods and – to a lesser extent – services, production processes have been fragmented (Venables, 1999) and value chains have gone global. Some observers now speak of global production networks.

The development of such global value chains (GVCs) has led to major structural changes in the world economy. The fragmentation of production processes caused greater integration of world markets. Multinational firms are increasingly offshoring and outsourcing jobs and tasks. International competition no longer takes place between industries and firms in different countries according to comparative advantages, but increasingly between workers and their skills. They are still located in different countries, but may well work for the same firms (Baldwin, 2006). Countries no longer specialize exclusively in goods and services, but more and more in tasks (Lanz et al., 2011).

These activities occur primarily between developed countries, but also between developed countries and certain developing or emerging economies. African, Caribbean and Pacific countries (ACP), the focus of this paper, are only integrated in GVCs to a very limited extent. When looking at the group of ACP countries, their huge heterogeneity in terms of geographical characteristics and economic development is immediately apparent. Furthermore, their generally small economic scales, and prevalence of small-scale producers and suppliers, means that plugging into existing value chains coordinated by multinational corporations (MNCs) is rather difficult.

Therefore, in order to assess desirable strategies to integrate in world trade, we analyze the potential of ACP countries to integrate into GVCs. However, it is also necessary to look at the relevance of regional value chains (RVCs) in contrast to GVCs. As Mumuni (2013) states, the ACP countries also try to address challenges of integration into world trade via south-south cooperation. Integration at the regional level amongst less demanding partners may offer a viable stepping-stone into subsequent integration into GVCs.

This study first shows the relevance of global value chains and global production networks in general. Then it considers the challenges of fragmentation for ACP countries. So we first analyze the role of GVCs in modern trade and development and then show the problems faced by ACP countries wishing to integrate into GVCs and upgrade within them. Accordingly, we cluster the heterogeneous ACP countries into groups with similar characteristics before we ask what they can do to integrate into value chains, whether global or regional. The final section summarizes the policy options developed in the course of the analysis.

## 2 Global value chains (GVC) – implications and preconditions

### 2.1 General remarks

International trade has significantly changed in the last decades. Whereas until the mid-20<sup>th</sup> century goods were mainly produced in one single manufacturing site and traded against other goods (and sometimes services), deeper integration has taken place since the 1970s, based on international trade and investment flows. Enhanced by multilateral liberalization as well as decreasing communication and transportation costs, this development has led to greater flexibility for firms. Production processes today are sliced or fragmented; and take place in global value chains (GVCs) or global networks.

Thus, structural change is ever faster, and challenges for individual workers, firms and political entities have accordingly grown. There is a new paradigm in trade theory implying that the comparative advantage of a country or a region changes much faster than before and that it is not exclusively directed at goods but at tasks. Put differently: instead of goods, tasks are traded.<sup>1</sup> This tendency opens a lot of opportunities and challenges for firms and workers both in developed countries and the emerging world. Their competitive situation changes much quicker than it used to.

Cattaneo et al (2013, pp. 4f) see four detailed paradigm changes due to the emergence of GVCs. These changes can be used to identify the challenges ahead. They are particularly important from the perspective of developing and emerging economies, which want to upgrade in GVCs. The four shifts are the following. (1) A change of the relevant strategic focus from countries to networks, GVCs, or firms reflects the trend that specialization intensifies and comparative advantages are ever more dynamic. (2) A change of the economic framework from industries to tasks and functions implies that the relevant units of decision-making become smaller and that production processes are shared by small units. Put differently, in the old Heckscher-Ohlin-world, goods were produced in one country and trade across borders. This can be interpreted as the movement of factors (labor, human capital and capital) incorporated into the goods (less so services). In the new GVC-world, the movement of factors of production is being replaced by the movement and exchange of skills and tasks. The trade statistics cannot cope with this change and still report trade flows. To understand this new paradigm, input-output relations have to be analyzed. (3) A change of the relevant economic assets from (factor) endowments and stocks to flows shows the enormous increase in speed and the dynamic nature of production today; knowledge has to be written off faster and acquired continuously. Finally, (4) a change of relevant barriers and stimuli from public to private shows that trade policy moves from taxing goods and services

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<sup>1</sup> Tasks are generally defined as units of work, with an occupation representing a set of specific functions. A rather narrow definition of the 'term trade in tasks', simply refers to services being outsourced (e.g. human resource management, marketing and sales) (Lanz et al., 2011). However, we adhere to the paradigm of trade in tasks developed by Grossman and Rossi-Hansberg (2008), who define trade in tasks as the result of separated tasks in time and space in the course of outsourcing and offshoring activities, and underline the change of the nature of trade from pure exchange of goods to value adding processes in many different locations.

at the border to a broader set of measures, which are complicated and interdependent. Because of the fragmented production process, granting effective protection is getting more difficult. Private standards may well replace official non-tariff trade barriers. These changes may occur individually or even jointly.

Parallel to these recent developments in world trade, the increase of trade in services with foreign direct investment (FDI) flows shifting from the secondary to the tertiary sector becomes obvious. Firms are increasingly outsourcing parts of their business functions. This includes 'business process outsourcing' (BPO) and 'information technology-enabled services' (ITES). Services multinationals are also establishing services GVCs in their own right (Stephenson, 2012). These developments offer high potential for economic development of services - oriented developing and emerging economies (WTO, 2011).

Another recent development in GVCs is a shift in the geographical location of production processes. So far, China has been the world's key player in international production fragmentation, which comprised mainly the processing and assembling of manufactured goods (WTO, 2011). However, with rising Chinese labor costs production is relocating, partly back to the US (Sirkin et al., 2011) or to countries like Vietnam, Cambodia and Mexico (Draper and Lawrence, 2013). It is this relocation process and potential that offers, in theory, opportunities to the ACP countries.<sup>2</sup>

## **2.2 The role of GVCs for the ACP countries**

In the literature concerning the impact of GVCs on developing and emerging economies, there is a consensus that participation within these networks is crucial for securing enhanced access to markets and knowledge networks, and new opportunities for production capability formation by local suppliers (Ernst and Kim, 2002). Strategies on how to gain higher value activities within GVCs aim at industrial upgrading, through product or process upgrading and intra-chain or inter-chain upgrading (Gereffi et al., 2001).

Looking at the preconditions for participating in GVCs, the ACP countries perform relatively poorly,<sup>3</sup> facing a number of barriers to trade comprising geographical, institutional and infrastructural aspects (Mumuni, 2013). The need to tackle these barriers is especially relevant in light of the recent developments of GVCs, comprising trade in services and the shifting geography of locations, which might offer new opportunities for the ACP countries to finally plug-in or upgrade (Draper and Lawrence, 2013).

MNCs that disperse their supply chain into global production networks, the so-called 'global network flagships,' are of particular importance here, since they are the standard-setters for the complete value chain (Ernst and Kim, 2002). For ACP countries, it seems more appropriate to aim at attracting second and third-tier firms. In the target country, these

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<sup>2</sup> This is exemplified in Stern and Ward (2013) for Africa, and Ward (2013) for the Caribbean countries organized in the CARIFORUM, respectively, who show the interests of ACP countries in services trade.

<sup>3</sup> This can be seen in Annexures 1 through 4, where the trade performance of ACP countries is displayed. As noted above, we have to refer to trade statistics. This means that further analyses are necessary.

firms choose local suppliers according to criteria such as reputation, quality and the speed of response. Meeting these criteria is especially important for local suppliers in developing countries that wish to plug into GVCs.

Therefore, a range of preconditions that enable participation in GVCs must be met. Those address a country's attractiveness to foreign firms and investments and shall further ensure a business and trading environment which allows local suppliers to meet the aforementioned criteria of MNCs.

Here, the first category to analyze is the general market access and a country's openness to FDI. For market access, both domestic in terms of tariffs applied, and foreign, in terms of tariffs faced, must be considered. Furthermore, with FDI being a main driver for the development of GVCs, openness to FDI is crucial.

Considering this, infrastructural services play a key role. These services include transportation and logistics, telecommunication, finance and insurance, and energy. Their quality and efficiency determine the business and trade environments, and company performance. Therefore, these services function as enabling factors for a country's participation in GVCs, which makes a reliable infrastructural network and efficient provision of these services indispensable.

Infrastructure alone has proven not to be sufficient from MNCs' perspective to attract them, as Bhatia (2012) makes clear. The business and trade environment is furthermore crucially influenced by the institutional framework of the target countries. The framework comprises the existence of the rule of law, of property rights, a proper health system, education and innovation policies, a transparent tax environment as well as administrative capacity. Together, these institutions influence country, and company, attractiveness for value chain participation. Providing an efficient and secure business environment as well as the protection of property rights are all the more important in the context of offshoring and outsourcing decisions of MNCs.

ACP countries often lack these elements. As the tables in the Annexure show, they often lack the requisite institutional quality. It may be an option for them to start with special economic zones, or offshore centers to attract FDI and to learn institutional improvements. In these zones governments can more easily guarantee investors' rights than in the whole country. As Baldwin (2012) states, offshoring decisions – and thereby trading decisions – are now vitally influenced by the ability of the target country to assure the protection of the offshoring firms' tangible and intangible assets. Bhatia (2012) adds that firms also relocate production into their home countries if these factors are not present.<sup>4</sup>

Beyond that, further factors influencing a country's trading environment such as the efficiency of border processes, customs practices and domestic regulations have to be

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<sup>4</sup> This observation fits well into the general observation of the development community that institutions are the main drivers of successful development.

considered. The resulting cost differentials are substantial as already a simple comparison of the costs of crossing borders, conducted by the World Bank (2013a), shows. These costs comprise the financial burdens associated with moving containers, the time taken and number of documents needed to clear goods at customs, as well as paying bribes which, apart from the financial burden bear also the risk for foreign companies of being sued in their home countries. In addition, speedy and low cost access to capital goods and intermediate products is essential for plugging into GVCs, particularly for export-oriented FDI. Therefore tariff barriers on these categories of goods need to be minimized if not eliminated.

Next, and different to 20<sup>th</sup> century globalization, the workforce is relevant. Whereas in the past, FDI in developing countries was driven either by trade barriers (tariff jumping) or cheap labor, today much more emphasis is laid upon the education of workers. In particular when planning to plug in and/or to upgrade in value chains, governments should consider the level of education in their countries. These considerations should also contain the innovative potential within the country. In connecting to GVCs, education is important as it determines where a country can 'anchor' itself in a value chain, that is, in which processes/areas will it be perceived as attractive for FDI (will it be for assembling apparel, or putting together TV sets, or assembling harnesses for automobiles; or will it be more for cutting fabric or producing more sophisticated medical devices; establishing call centers or for shared-services centers?). From thereon, upgrading is the challenge.<sup>5</sup> The significance of upgrading is also pointed out by Bernhardt (2013) who concludes for a sample of developing countries in the global apparel industry that economic upgrading seems to be conducive to social upgrading.

Multinational firms are also the main standard setters in terms of ecological and social requirements; an issue of special concern to low-income countries. The realization of such requirements is essential for entering profitable markets since they determine market access especially to high-income countries. However, this is a problem for small-scale producers and suppliers, which are prevalent in the majority of developing countries. For them, costs of implementing standards are a major barrier to accessing GVCs. Therefore, producers aiming at entering GVCs need to engage with the challenge of producing to higher, and often private, standards (Kaplinsky, 2010).

From the perspective of ACP countries, there is another aspect to be considered. It has been suggested (Kaplinsky and Morris, 2001) that ethnic and/or cultural links between producers and customers may play a role. By the same token, participating in GVCs may well be positively driven by ethnic links to other participants and particularly lead firms in GVCs.

### **2.3 The relevance of RVCs**

Some of the countries under consideration are very weakly integrated into the world economy (see section 3). Therefore, for them and their firms approaching value chains at the

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<sup>5</sup> We thank Anabel Gonzalez, Trade Minister of Costa Rica, for this observation.

regional level could be useful since local producers who are not taking part in GVCs may be able to promote upgrading processes via regional cooperation. This may then lead to internationally acceptable productivity and quality standards which allow for participation in GVCs in a subsequent step (Meyer-Stamer, 2004). This potential is especially applicable to ACP countries with a high prevalence of small-scale producers.

However, in order to assess the relevance of GVCs and RVCs for the ACP countries appropriately, it is necessary to set a clear distinction between both concepts. In principle, the logic is similar. Local firms and workers can only benefit from globalization if they integrate into value chains. Depending on the nature of the products, these chains are spread differently geographically. Thus, regional attempts to integrate markets may be instrumental for the inclusion of ACP countries into GVCs.

The general idea of regional integration is based on (trade) theory of integration. The argument is simply that the reduction of barriers to regional trade enhances the division of labor between neighboring countries. This promotes economic efficiency, or static gains, but also the widened division of labor promotes specialization and therefore dynamic gains. Of course since the market focus is regional, not global, and because in the ACP context those markets are small, the dynamic gains will clearly not be as great as those potentially on offer via GVCs.

More concretely, the first concept to think about is the concept of growth poles, i.e. areas or industries, which show a particularly dynamic development and thereby create spillovers for other regions. For example, Ogunleye (2011) suggests that there are five growth poles in Africa (South Africa, Botswana, Kenya, Nigeria and Angola) driving regional development. To integrate them with their regions (Southern Africa, East and West Africa) then the rest of the continent seems key. Thereby, the dynamic aspects of these poles are of crucial importance. Giersch (1979) shows that agglomeration enhances growth, since in centers spillovers occur due to the agglomeration of innovative entrepreneurial individuals who produce new knowledge, products and processes. This enhanced growth will also generate higher income and new capital, which can be used to invest (and meet capital demand) in the periphery. This of course requires the readiness of the periphery to make use of this capital inflow; in Ogunleye (2011) the periphery comprises African nations neighboring the growth poles. So economic gateways such as South Africa may well channel South African and third country capital into the periphery (Draper and Scholvin, 2012).

Nevertheless, it is not clear how to initiate growth poles. Speakman and Koivisto (2013, p. 93) claim that it is a political task to initiate "... simultaneous, coordinated investments in many sectors to support self-sustaining industrialization in a country." The aim is not to overcome market failure but to capitalize on and augment existing opportunities (ibid, p. 94). They show a few successful and ambitious examples in Africa, among others three growth poles in Madagascar as well as a planned Nigeria electricity and gas investment project. As major challenges, the authors identify coordination, accountability and risk

management. However, they totally neglect two problems. The first is the history of large, politically induced investments in developing countries, which often produced white elephants instead of growth poles. Second, and even more important, they do not consider the knowledge requirements of “creating” growth poles. How can – in light of fast structural change and GVCs – a government determine the correct investments for the future development and long-term growth of a country, region or city? The challenge multiplies the ‘weaker’ the government concerned is. This problem has to be kept in mind when debating policy options.

A successful form of regional cooperation in South East Asia has been the concept of growth triangles. The concept aims at forming a sub-region for economic growth by linking adjacent areas of countries with different factor endowments and sources of comparative advantages (Kuchiki, 2006). By reducing regulatory barriers it aims at attracting more domestic and foreign investment and promoting the countries’ exports. This policy logic is consistent with that for attracting GVC investments. First attempts by African countries have been made with the Zambia-Malawi-Mozambique Growth Triangle (ZMM-GT), which was re-launched in 2011 (Economic Commission for Africa, 2011).

Another approach focuses on ‘development corridors’. The concept aims at using existing roads and railroads and to link mines and other investments in the area with regional markets and ports in order to enable the movement of food, goods, services and information (Kuhlman et al., 2011). To include as many factors of production as possible into the development corridor, it additionally has to be assessed whether official development assistance (ODA) can be used to support investments in remote areas in order to enhance the integration of these regions into RVCs. Collier (2013) argues that beside weak governance one reason for underdevelopment is remoteness. As a consequence, ODA may be an instrument to connect remote regions with economic centers, in a process known as developing regional growth corridors, or poles.

Finally, there is the more traditional route of trade integration through preferential trade arrangements (PTAs). Traditional PTAs widen markets through reducing or eliminating tariff barriers; this enhances both static and dynamic gains. Modern PTAs consistent with GVC and RVC development deepen integration through harmonizing ‘behind the border’ regulatory policies and institutions. ACP countries have by and large widened their markets through tariff reductions, but many challenges remain in regulatory and institutional convergence. The best route to developing the latter is to focus efforts on those regulations and institutions that will promote trade facilitation, avoiding where possible politically complex harmonization issues since these can take many years to resolve (Draper, 2010). Such an approach is consistent with both GVC insertion and RVC development.

In sum, integration into GVCs can be fostered by utilizing the potential of regional integration. It may be easier for areas where a big country can operate as a “factory hub” such as the US for Latin America or Japan in Asia. Nevertheless, the idea is worthwhile to

consider. Different forms can be thought of. They all require the principle readiness of ACP countries to integrate. This implies institutional capacities, workforce qualification and infrastructure, but probably to a lesser extent than integrating directly into the global sphere. The big advantage of RVCs for ACP members, therefore, may lie in the chance to improve the conditions for integration while integrating.

### **3 ACP Countries in the world economy**

First, we outline basic structural facts to illustrate the heterogeneity of the countries of interest. Second, the ACP countries are classified according to their current degree of global integration, which gives a first notion of certain groupings of countries and serves as an indication for the countries' global or regional roles and the corresponding objectives worth striving for in relation to GVCs and RVCs. A distinction between global and regional economies, as well as the identification of countries with less intensive integration, is made. Next the ACP countries are scrutinized according to basic trade enabling requirements necessary to enter and remain in value chains, and according to business sophistication prerequisites required for upgrading. This assessment is the basis for a final classification of the countries according to the most urgent problems and challenges they face.

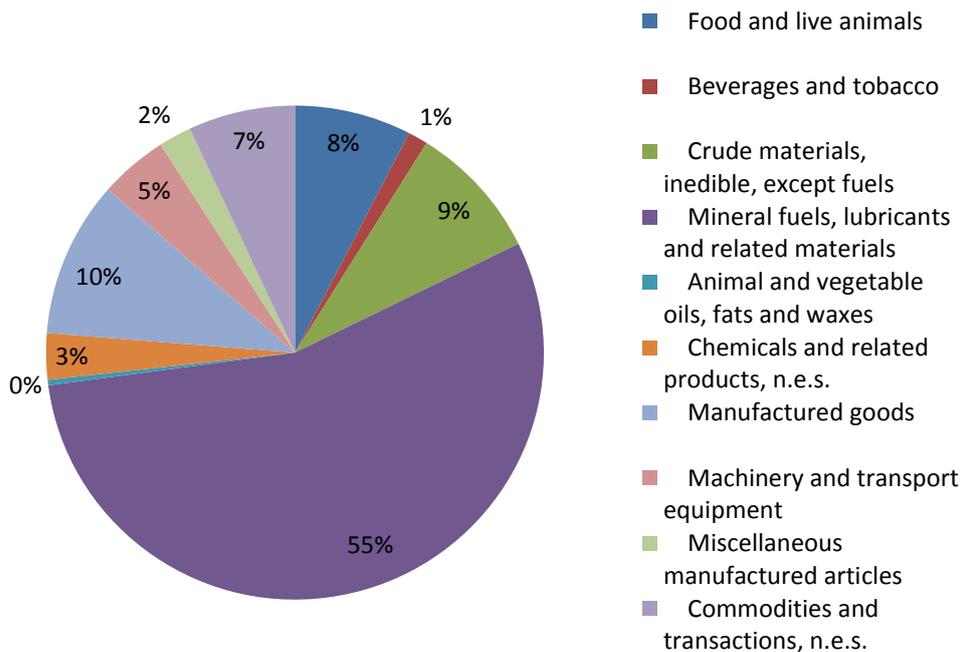
However, the data analysis is subject to severe data constraints. Not all indicators are available for all ACP countries; in fact some of them are almost totally neglected. This data constraint is especially strong for the Pacific island states and some of the small Caribbean islands. Therefore, the study deals with the situation of this group of small and partly remote islands in section 3.5.

#### **3.1 Trade and investment patterns**

##### **3.1.1 Export structures**

Merchandise exports of the ACP country group accounted for roughly 2,6% of total world exports in 2012, whereas 13,5% of all ACP exports were intra-group (see UNCTADStat, 2013a).

*Graph 1* illustrates the exported merchandise products of all the ACP countries as shares of total exports for the year 2012 (UNCTADStat, 2013a). Evidently, the product group mineral fuels, lubricants and related materials accounts for the major share of exported commodities (55% of all exports in 2012). This product group includes exports of coal, coke and briquettes; petroleum and petroleum products; gas and electric current (UNCTADStat, 2013a). The remaining product groups account for far lesser shares in total ACP products: Among the remaining groups, manufactured goods (10%), crude materials (9%), food and live animals (8%) and commodities and transactions (7%) account for relatively higher shares of exports.



Graph 1 Merchandise exports of ACP countries characterized by product groups, expressed in shares of total exports for the year 2012

Source: UNCTAD Stat, 2013a.

However, when looking at the ACP group members separately, differentiated according to regions, the picture is more diversified.<sup>6</sup> *Graph 2* illustrates the exported products as shares of total exports for 2012 for Sub-Saharan Africa, Caribbean and Pacific.

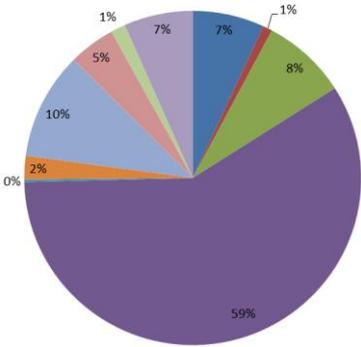
Obviously, Sub-Saharan African exports are dominated by exports in mineral fuels, lubricants and related materials (59%). Exports of manufactured goods (products included are e.g. leather, cork and wood manufactures, paper, textile yarn, iron and steel or non-ferrous metals) and crude materials (e.g. hides and skins, oil seeds, pulp and waste paper, cork and wood or crude rubber) account for the second and third highest export shares with 10% and 8%, respectively. Looking at these three major export sectors in detail, *Annex 1* illustrates the exports of each product group at the country level, by depicting the five major export countries and their respective export share. For mineral fuels, Nigeria is by far the major exporter in Sub-Saharan Africa with a share of 45% of total mineral fuel exports, followed by Angola, which accounts for 27% of total mineral fuel exports. Equatorial Guinea (5%), the Congo (3%) and South Africa (3%) account for a lesser share of mineral fuels exports but are still among the upper five export countries. For manufactured goods, South Africa is the major exporter with a share of 41% of all exports, followed by Zambia (12%), Botswana (10%), Democratic Republic of Congo (DRC) (9%) and Namibia (4%). Also for crude materials, South Africa is the major exporter, accounting for 38% of all exports. The remaining

<sup>6</sup> For the majority of Caribbean and Pacific countries, the data is based on estimates.

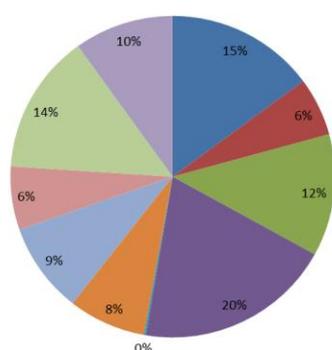
countries among the upper five export countries record rather small values of export shares (around 4-6%). These gaps indicate South Africa’s significant role for the export of these materials.

Export shares of the Caribbean countries show another picture, though, and are far more balanced than the Sub-Saharan African case (see *Graph 2*). While mineral fuels still account for the largest share, it is much smaller (20%). Food and live animals (15%), miscellaneous manufactured articles (14%) and crude materials (12%) are among the highest export shares. *Annexes 2 a-d* illustrate the shares in total exports of these four major export commodities of the five biggest export countries of the Caribbean states. For mineral fuels (see *Annex 2a*), Trinidad and Tobago is the biggest exporting country, accounting for a share of 57% of total exports, followed by the Bahamas (12%), Cuba (11%), Jamaica (7%) and Dominican Republic (5%). However, the Dominican Republic and Cuba are the biggest exporting countries of food and live animals with export shares of 33% and 29%, respectively (see *Annex 2b*). The remaining countries among the upper five exporters are Guyana (9%), Jamaica (7%) and Suriname (6%). For crude materials, Cuba is the biggest exporting country (39%), followed by Suriname and Jamaica with 19% each, the Dominican Republic (12%) and Guyana (7%) (see *Annex 2c*). Looking at the miscellaneous manufacturing (see *Annex 2d*), the Dominican Republic is by far the biggest exporting country with a share of 74%, followed by Haiti (16%), Cuba and Barbados with 3% each and Trinidad and Tobago (1%).

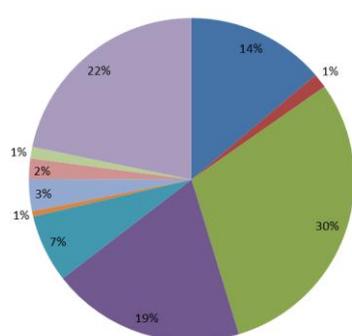
African exports



Caribbean exports



Pacific exports



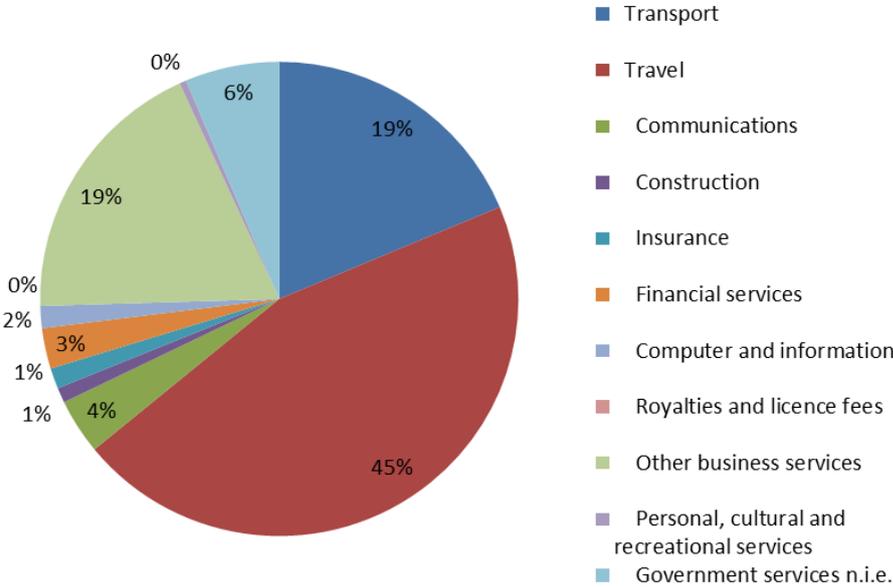
- Food and live animals
- Crude materials, inedible, except fuels
- Animal and vegetable oils, fats and waxes
- Manufactured goods
- Miscellaneous manufactured articles
- Beverages and tobacco
- Mineral fuels, lubricants and related materials
- Chemicals and related products, n.e.s.
- Machinery and transport equipment
- Commodities and transactions, n.e.s.

Graph 2 Exports of Sub-Saharan Africa, Caribbean and Pacific in 2012, divided by product groups

Source: UNCTADStat, 2013a.

In contrast to the Sub-Saharan and Caribbean major export shares of mineral fuels, the Pacific states record a major export share in crude materials (30%), followed by commodities and transactions (22%), mineral fuels (19%) and food and live animals (14%). Annex 3a-d depicts the export shares of the five major exporting countries for the four biggest export products. When looking at *Annexes 3a-d* altogether it becomes evident that Papua New Guinea is the biggest exporting country for all four commodity groups (export shares are: 53% for food and live animals, 81% for crude materials, 81% for mineral fuels and 91% for commodities and transactions, which include coin and gold (UNCTADStat, 2013a)). For food and live animals (see *Annex 3a*), Fiji is the second largest exporter with 34%, followed by Solomon Islands (5%), Micronesia (3%) and Vanuatu (2%).

Looking at services exports, exports of the ACP countries accounted for roughly, 1.9% of total world services exports in 2012 (UNCTADStat, 2013a)<sup>7</sup>. *Graph 3* illustrates the export shares of the different services categories in the total services exports of the ACP countries in 2012<sup>8</sup>.



Graph 3 Services exports of ACP countries characterized by services groups, expressed in shares of total services exports for the year 2012

Source: UNCTADStat, 2013a.

Evidently, travel services account for the major share of exports (45%), followed by other business services (including trade-related, professional and technical services such as advertising, consulting, accounting etc.) and transport services (19% each). The predominance of travel exports is also obvious when looking at the export shares of services at the regional level. *Annex 4* depicts the services export shares for the Caribbean and African countries included in the ACP group. Both African and Caribbean countries record highest services exports shares for travel services (50% and 48%, respectively). For the African countries, second highest export shares are recorded by transport services (27%), followed by government services (government transactions and transactions of international organizations) (10%). For the Caribbean countries, other business services record second highest shares (32%), followed by transport services (9%).

<sup>7</sup> The data is based on estimates.

<sup>8</sup> Data for the Pacific countries is not available.

### 3.1.2 Foreign Direct Investment inflows

*Annex 5* depicts inflows of Foreign Direct Investments (FDI) into the ACP countries, both in millions of US Dollars (see *Annex 5a*) and as a share of GDP (see *Annex 5b*). The data is obtained from UNCTADStat<sup>9</sup> (2013b) and illustrates FDI flows in net terms.<sup>10</sup>

Evidently, Nigeria recorded the highest total FDI inflows in 2012 (see *Annex 5a*). It is followed by a number of other African countries with relatively high FDI inflows, including Mozambique, South Africa, DRC, Ghana and Congo. Among the Caribbean countries, the Dominican Republic and Trinidad and Tobago recorded relatively high inflows. Noticeably, all Pacific countries are at the lower range of FDI recipients, with Fiji recording highest FDI inflows within the Pacific group. Strikingly, Angola and Kiribati recorded negative values, which indicates disinvestment in the year 2012 (2010 and 2011 recorded positive FDI inflows, though). However, the picture changes when we consider FDI in relative terms as percentage of GDP (see *Annex 5b*). Liberia recorded the largest FDI inflows in relative terms (104.69 % of GDP), followed by Mozambique (35.02%), Mauritania (28.05%) and Congo (22%). The Marshall Islands in the Pacific ranks relatively high (18.44%).

### 3.2 Country heterogeneity – basic structural facts of the ACP countries

Comprising 79 countries, 48 of which are located in Sub-Saharan Africa, 16 in the Caribbean and 15 in the Pacific, the ACP countries as a group are characterized by huge heterogeneity that is reflected in a number of basic structural facts – as evidenced in the brief trade and investment patterns elucidated above.

Differences in developmental levels become evident when looking at the Human Development Indices (HDI)<sup>11</sup>. Two ACP countries are classified as very highly developed – the Caribbean country Barbados and the African country Seychelles. Furthermore, the majority of Caribbean countries (9) (see *Annex 6*) are classified as highly developed. In addition, one African (Mauritius) and one Pacific (Palau) country are classified in this category. Looking at the lesser developed classifications; it is evident that the majority of African countries (37) are classified under low human development; whereas the majority of Pacific countries are classified under medium human development (6 countries) (see *Annex 6*).

Another aspect of heterogeneity is the variety of geographic circumstances the ACP countries face. Whereas the majority of countries are located at a coastline (32 states; 29 African, 1 Caribbean and 2 Pacific), 29 states are geographically islands. However, sizes and economic performances of the islands vary dramatically.

*Annex 7* shows the distribution of sectoral value added (as % of GDP) across the ACP countries (World Bank, 2013b). It is evident that most of them generate the highest value

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<sup>9</sup> For the majority of Caribbean and Pacific countries, the data is based on estimates.

<sup>10</sup> FDI flows are on net bases (capital transactions' credits less debits between direct investors and their foreign affiliates). FDI flows with a negative sign indicate that there is reverse investment or disinvestment (UNCTADStat, 2013).

<sup>11</sup> For index description see *Annex 20*.

added in the services sector. Among those services intensive countries with sectoral value added in services higher than 50% of GDP, are 17 African, 11 Caribbean and 7 Pacific countries. Only 2 African countries exhibit major value added in agriculture (> 50% of GDP), whereas 5 African and one Caribbean country can be characterized as industry intensive. However, some of the countries record relatively high values in either agriculture and services or industry and services (see *Annex 7*).

### 3.3 Degrees of global integration - identifying global and regional economies

Cattaneo et al. (2013, p. 14) state that a country's competitiveness can be measured at three levels in the context of GVCs: the capacity to join GVCs, the capacity to remain in GVCs, and the capacity to upgrade within GVCs. In line with this characterization, it is of special interest to consider the respective challenges countries face according to their degree of integration into the global economy. For globally and regionally integrated countries, the topic of upgrading and moving up the value chain is of special importance, whereas countries which are still relatively disintegrated face the challenge of higher integration and plugging into value chains. Therefore, the integration level of a country is relevant in multiple respects. It is indicative for the country's global and regional role or its rather weak integration at both levels. Having identified the country's relative position within the world economy, implications for objectives worth striving for within the concept of GVCs and RVCs emerge.

In order to classify the ACP countries according to their current degree of global integration, the KOF index of globalization is used (Dreher, 2006)<sup>12</sup>. The index of globalization is calculated from three dimensions: economic, social and political (see *Annex 20* for a description). In the context of GVCs, the economic and social dimensions are especially important. They capture trade and investment integration as well as social and infrastructural aspects of integration, such as information and communication technologies diffusion. However, in order to make a first general distinction of the degrees of integration within the ACP, consideration of the overall KOF globalization index, comprising all three dimensions, is required. *Annex 8* lists the ACP countries grouped according to it.

Based on the available data, three groups are identified: highly globally integrated; highly regionally integrated and weakly integrated countries. The analysis makes use of the overall globalization index in order to take account of the whole extent of integration. In order to identify global powers, the global median over all country indices available in the data is taken as a benchmark. For regional powers, the regional median of the index serves as a benchmark. Countries below the regional median are classified as weakly integrated countries.

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<sup>12</sup> In order to measure specifically a country's value chain participation, the OECD/WTO Trade in Value Added database is more appropriate but the majority of ACP countries are not included. The UNCTAD Eora database however includes ACP countries and their input-output tables. However, the data are somewhat arbitrary and not general and comprehensive enough. Moreover, a detailed data analysis of all the countries based on input-output measures would be beyond the scope of this study. Therefore, we use the KOF index as a general benchmark of a country's degree of global integration.

Accordingly, *Annex 8* shows that the following countries can be classified as globally integrated: 5 African countries (Mauritius, Namibia, Zambia, South Africa and Nigeria), 3 Caribbean countries (Dominican Republic, Jamaica, and Trinidad and Tobago); and one Pacific island (Fiji). Moreover, 18 African countries are classified as regionally integrated, whereas 3 Caribbean and 3 Pacific states fall under this classification as well. This distinction between globally and regionally integrated countries together with the remaining countries being classified as weakly integrated is the underlying cluster by which the subsequent data analysis is conducted. Taking this distinction as a starting classification, it serves as a basic differentiation between the ACP country group and facilitates further sub-groupings according to problems and challenges faced.

In addition to the KOF index, we also use the World Economic Forums' Global Enabling Trade Index (GET)<sup>13</sup>; the sub-indices will be analyzed in a next step. In accordance with the previous classification scheme based on the KOF index, the same procedure is now applied based on the GET index of 2012. Subsequently, resulting groups of countries with indices above world median, between world and regional median and below regional median are compared for both KOF and GET indices. The congruence of the GET and KOF indices is substantial, but there are differences, see *Annex 9*. From the resulting groupings of globally, regionally and weakly integrated countries, different questions concerning problems and challenges of the ACP countries emerge. Relating this to our discussion of the preconditions for accessing GVCs, for the relatively extensive number of countries that are weakly integrated, aspects of basic investment and business requirements as well as workforce qualifications, are the focal points of interest. This logic applies equally to efforts to integrate into GVCs and RVCs, but it seems likely that RVC integration would be a more attainable objective given the higher thresholds demanded by MNCs. However, although true in theory, the empirical evidence on this is not clear, particularly in the case of Africa (von Uexhull, 2012). A simple point to consider is that transport costs between an African port and overseas ports are often significantly lower than from that port to a landlocked country in Africa.<sup>14</sup> Countries that are either already globally or regionally highly integrated face challenges of remaining and moreover upgrading within GVCs and RVCs. Therefore, an increased sophistication of business activities is crucial. Upgrading is facilitated through capacity building, innovation, workforce development, and higher education (Cattaneo et al., 2013, p. 31). The group of ACP countries will be analyzed with respect to these determining factors in the next section.

### **3.4 Determinants of participation in GVC/RVCs**

In the next step, we assess basic determining factors for a country's GVC/RVC participation for the ACP countries. Results show that market access in general is not considerably restricted. However, when considering services, especially professional services are heavily restricted to foreign investments and movements of natural persons. Major constraints

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<sup>13</sup> For index description see *Annex 20*.

<sup>14</sup> We thank Jan Rielander from the OECD Development Centre for this observation.

further exist in infrastructural aspects, especially the quality and availability of transport infrastructure and the institutional setting, with corruption and the granting of property rights as main problems for the majority of ACP countries. All ACP countries perform rather poorly for the indicators reflecting the business sophistication capacities.

In order to have a general benchmark to assess the performance of the ACP countries we introduce a set of 8 non-ACP countries. These countries are chosen on the basis of their performance in trade in intermediates and participation in GVCs. Furthermore, selected countries reflect a variety of geographical and population characteristics in order to ensure comparability with the heterogeneous ACP group.

The set of well performing non-ACP countries contains 6 countries which rank among the top 50 performers in trade of manufactured intermediate goods in 2006 (Sturgeon and Memedovic, 2010). These include China (rank 3), Mexico (rank 15), Vietnam (rank 45) and India (rank 21), which are coastal countries characterized by large populations. We also include two small island states: Hong Kong (rank 6) and Singapore (rank 11). In addition to the manufactured intermediates trade, these countries also serve as a good benchmark for trade in services, especially with India, which recently experienced rapid service-led growth (Ghani, 2010). Among the two remaining benchmark economies is the Central American state Costa Rica as a coastal country characterized by a small population. It strongly embraced trade liberalization as a key development strategy along with attractions of FDI into high-tech manufacturing and services activities, with a significant share of the economy now participating in GVCs (Monge-Arino, 2011). Finally, the European island Iceland, which records a relatively high share in GVC participation for the chemical industry and the minerals and electrical equipment industry (OECD, 2013a).

### 3.4.1 Basic trade enabling requirements

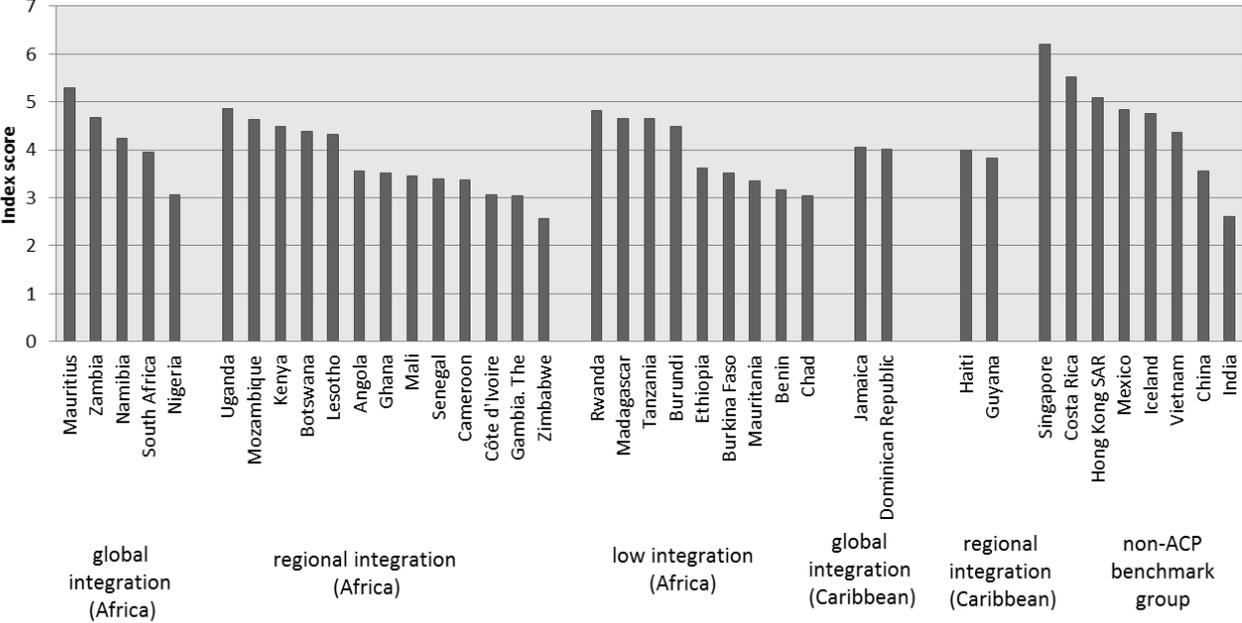
#### *Market access*

Having already conducted a general assessment of the trade enabling environment, it is now interesting to distinguish between the different components which influence the enabling trade environment and competitiveness since it allows a differentiated view on existing bottlenecks and problems, and accordingly separate conclusions. In order to have a general overview of the conditions of market access in ACP countries, the Global Enabling Trade Index<sup>15</sup> sub index *domestic and foreign market access* is used to depict and evaluate the market access conditions for the countries covered (see *Annex 20* for a description of the index). We consider the ACP countries grouped according to the integration cluster undertaken in 3.2 and further compare them to the non-ACP benchmark group. *Graph 4*

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<sup>15</sup> Missing countries in the Global Enabling Trade Index are: Antigua and Barbuda, the Bahamas, Belize, Cape Verde, Central African Republic, Comoros, DRC, Republic of the Congo, Cuba, Djibouti, Dominica, Equatorial Guinea, Eritrea, Fiji, Gabon, Grenada, Guinea, Guinea-Bissau, Kiribati, Liberia, Niger, Sao Tome and Principe, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Seychelles, Sierra Leone, Somalia, Sudan, Swaziland, Togo, Trinidad and Tobago and all Pacific countries except Timor-Leste.

shows that the group previously clustered as highly globally integrated does not record the highest market access indices throughout the countries included in the group. By contrast, each group of integration degrees contains countries recording relatively high indices in market access (Mauritius and Zambia being the highest for globally integrated; Uganda and Mozambique the highest for regionally relevant; and Rwanda and Madagascar for the weakly integrated group). Interestingly, the Caribbean countries contained in the index dataset record roughly equal scores for market access, and are among the medium market access grouping. Overall, goods market access does not seem to be a decisive differentiator.



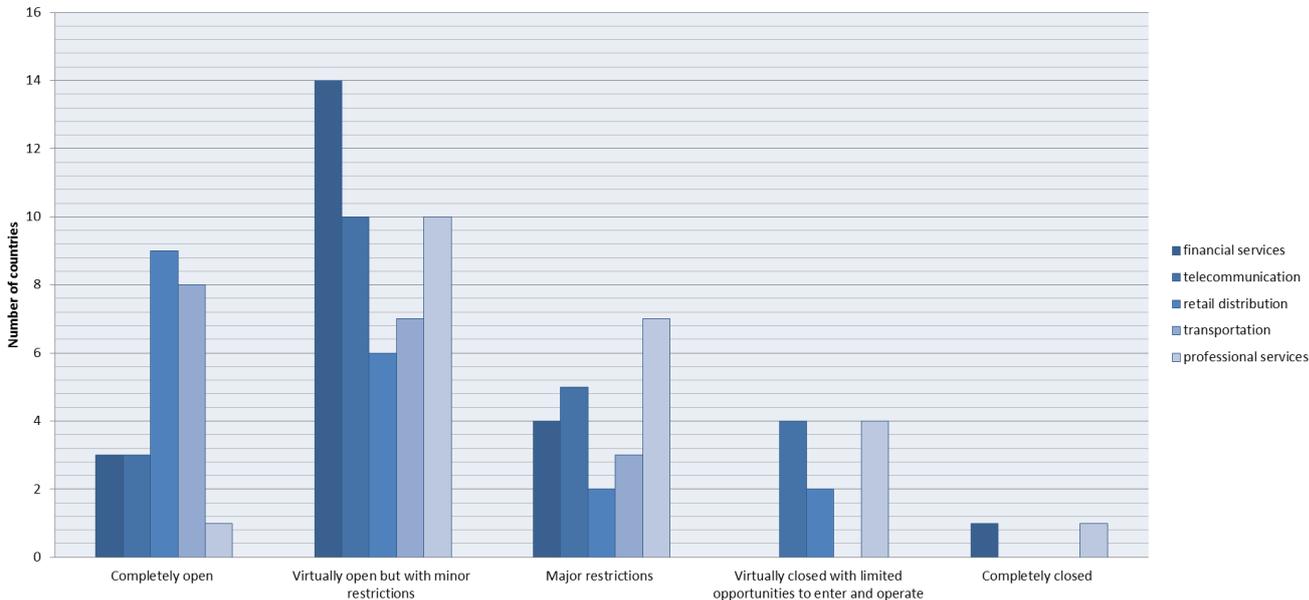
Graph 4 Index scores for domestic and foreign market access of the ACP countries included in the Global Enabling Trade index, based on the Global Enabling Trade index.

Source: Lawrence et al., 2012.

Another important aspect of market access is trade in services. As outlined in section 2, services have a pivotal role within GVCs as key linking elements of the different fragments of production. Moreover, for a country’s attractiveness to MNCs they are crucial at two different levels. First, the quality and efficiency of basic infrastructural services, such as transportation, telecommunication and financial services; and second the quality and provision of more sophisticated professional services which are a determining factor for countries aiming at higher value added fragments within the value chains, in other words to upgrade within GVCs or RVCs. This makes an efficient provision of services all the more important for countries striving for value chain participation.

In light of this role of infrastructural and professional services, a country’s openness to their provision becomes increasingly important. In order to shed more light on that issue, the World Bank’s services restriction database is used to analyze the restrictions of ACP countries on foreign services providers, focusing on mode 3 of trade in services, which

approximates FDI. However, the database is subject to severe data constraints, containing mostly African countries and only one Caribbean country (Dominican Republic). Pacific islands are not included at all. Nonetheless, taking the given countries as a representative sample, a picture of services markets in need of further liberalization emerges. *Graph 5* illustrates the distribution between the degrees of service restrictiveness for five services sectors included in the dataset. The majority of countries' services are classified as virtually open but with minor restrictions, especially financial services. This apparently good picture has to be interpreted with caution, though, since a number of countries are missing,<sup>16</sup> which might yield the effect of a positive selection. In addition, the devil is in the detail, which cannot be assessed on the basis of the data available. Nevertheless, some cautions reflections are justified.



Graph 5 Country openness to foreign suppliers in five services sectors (commercial presence - mode 3 of trade in services) of ACP countries included in the World Bank's services trade restrictions database

Source: Borchert et al., 2012.

In order to compare these results with the non-ACP benchmark group of countries, *Annex 10* depicts the performance of the countries included in the dataset<sup>17</sup>. Strikingly, India records relatively high restrictions, especially for professional services. Whereas Costa Rica and Mexico are relatively open overall, and totally open to commercial presence in the retail services sector, Vietnam records major restrictions for this sector, as well as for telecommunications. Also in China, professional services are highly restricted.

<sup>16</sup> Missing countries are: Angola, Benin, Burkina Faso, Cape Verde, Central African Republic, Chad, Comoros, Djibouti, Equatorial Guinea, Eritrea, Gabon, the Gambia, Guinea, Guinea-Bissau, Liberia, Mauritania, Niger, Republic of the Congo, Sao Tomé and Príncipe, Seychelles, Sierra Leone, Somalia, Sudan, Swaziland, Togo, all Caribbean countries except the Dominican Republic and all Pacific countries.

<sup>17</sup> Hong Kong, Singapore and Iceland are not included in the dataset.

However, in order to get a more detailed picture, it is necessary to look at the data at the country level. *Annex 11* illustrates the countries' rankings for each of the services sectors, with countries being grouped according to their integration degree as per the KOF index.

Looking at the country level, it becomes evident that the restrictiveness scores vary dramatically between the different groupings of countries. Whereas Mauritius constantly records low values of restriction (except for professional services) among the highly globally integrated group of countries, the others differ in their scores, with South Africa recording major restrictions in transportation services and Zambia's telecommunication services being highly restricted. However, all countries of the highly globally integrated group impose their highest restrictions on professional services, implying high barriers for commercial presence of foreign professional services companies. In light of the importance of professional services for upgrading and value adding goals, this result is striking. Professional services restrictions are the highest for both the other integration groups. Ethiopia constantly records the highest restrictions for all services sectors among the group of countries with minor integration.<sup>18</sup> As the only Caribbean country, the Dominican Republic records no restrictions for financial, telecommunication and retail distribution and only minor restrictions for the other services sectors.

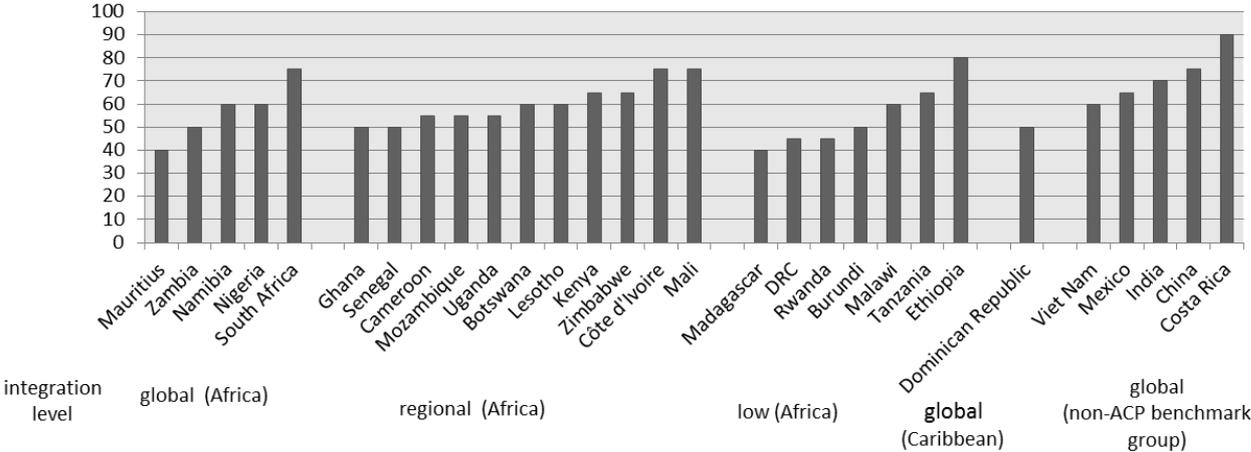
In light of the obviously highly restricted professional services sector to foreign suppliers, it is now interesting to look at another mode of restriction – movements of natural persons (mode 4) (data on mode 4 of trade in services is only available for professional services). *Graph 6* illustrates the index scores at the country level. The classification of the degree of restriction based on the index score is the following: completely open (0); virtually open with minor restrictions (around 25); major restrictions (around 50); virtually closed with limited opportunities to enter and operate (around 75) and completely closed (100) (Borchert et al., 2012). Evidently, the country scores are considerably high for both ACP and non-ACP countries. Lowest scores are recorded by Mauritius and Madagascar (40 each), which is indicative of major restrictions. This is especially striking with regard to the globally integrated countries of both the ACP and non-ACP groups, with South Africa and Costa Rica recording the highest values (75 and 90, respectively).

From the analysis above, no clear picture of differentiation on the basis of market access in services emerges. This result, while interesting, should not be interpreted as invalidating the literature referred to above, mostly because mainly developing countries have been

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<sup>18</sup> Incidentally, it also has been experiencing rapid GDP growth, and is now attracting labor-intensive manufacturing FDI from the likes of Turkey and China. This goes back to the comparative advantage story; they have a large, cheap, productive labor force and so should be able to integrate into efficiency seeking GVC chains at the bottom; the challenge for them comes with upgrading (Discussion with OECD Development Centre expert, 22<sup>nd</sup> November, 2013).

compared to each other but also because the data constraints are severe.<sup>19</sup> Moreover, as becomes evident in the next section, there are other, more binding constraints.



Graph 6 Restrictiveness to mode 4 of trade in professional services (movements of natural persons), based on World Bank’s services restrictiveness database

Source: Borchert et al., 2012.

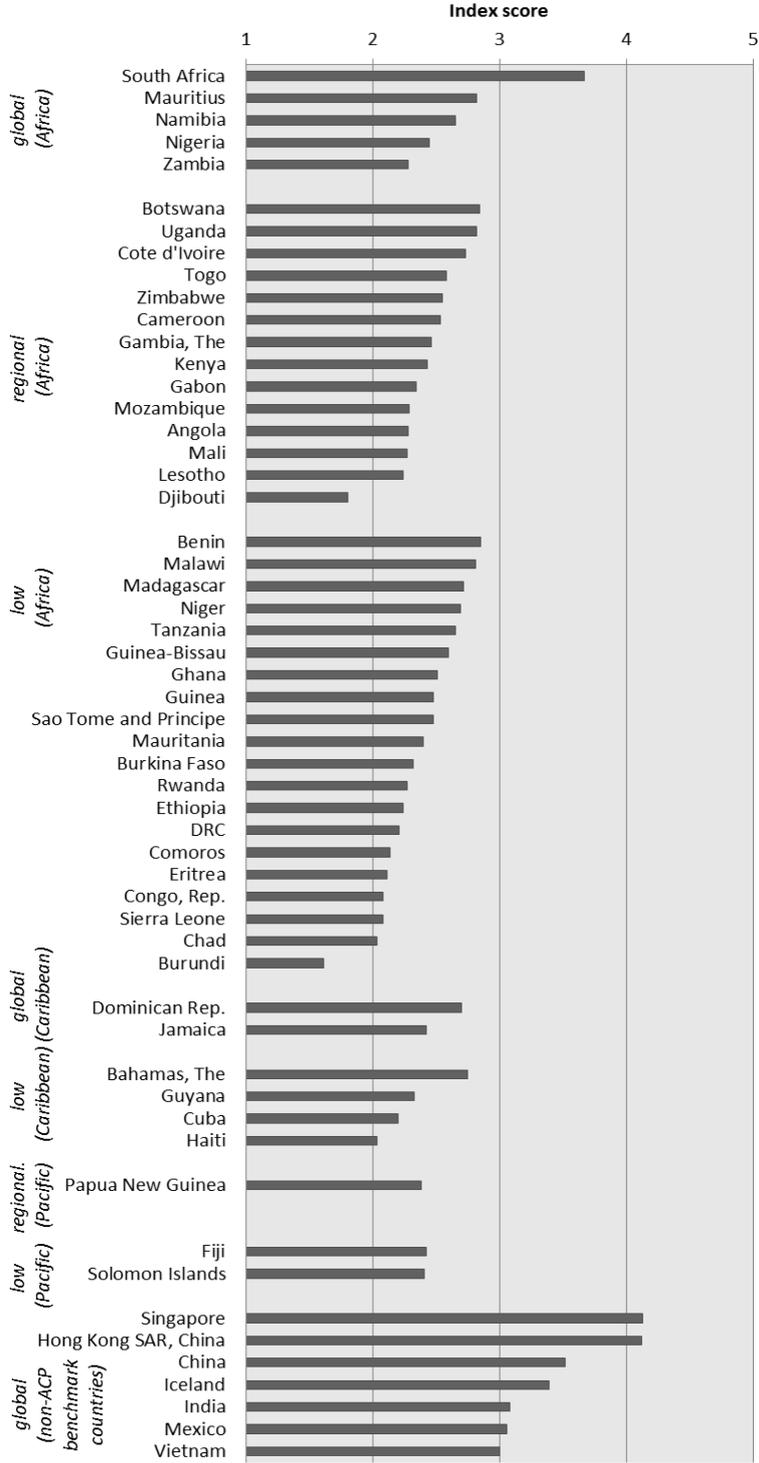
**Logistics performance, and the availability and quality of infrastructure**

Having considered aspects of general market access, the availability and quality of infrastructure is an essential determinant of a country’s potential to enter and compete within GVCs. A country’s performance along the logistics supply chain is therefore decisive. As argued above this performance is influenced by an efficient provision of infrastructural services, which build the backbone of the economy and the logistics network. Next to transportation services, electricity supply and communication services are important factors. Accordingly, we first consider the Logistics Performance Index (LPI) as a general reference for a country’s logistics efficiency, before we analyze performance in the availability and quality of infrastructural services.

The Logistics Performance Index is based on a worldwide survey of logistic operators combined with data on the performance of the logistics supply chain of a country (see Annex 20 for a description). Looking at the 2012 LPI (see Graph 7), it is evident that the performance of both African and Caribbean countries depicted in the index is relatively similar, South Africa being the lead performer with an LPI slightly above 3.5. However, the remaining countries record indices around 2 and 2.5 which are relatively low; whereas Djibouti and Burundi record the lowest values (slightly above 1.5). In comparison to the non-ACP countries with the best performer being Hong Kong and the others recording index

<sup>19</sup> The analysis of the non-ACP benchmark group is affected by the missing data for the states Hong Kong, Singapore and Iceland. Especially with Hong Kong and Singapore having the most open markets worldwide (1<sup>st</sup> and 2<sup>nd</sup> rank according to the open markets index 2013 (Finger, 2013)), the missing data for their services restrictiveness blurs the overall performance of the non-ACP group.

values between 3 and 4 (except for Costa Rica), all ACP countries perform considerably weakly (expect for South Africa).

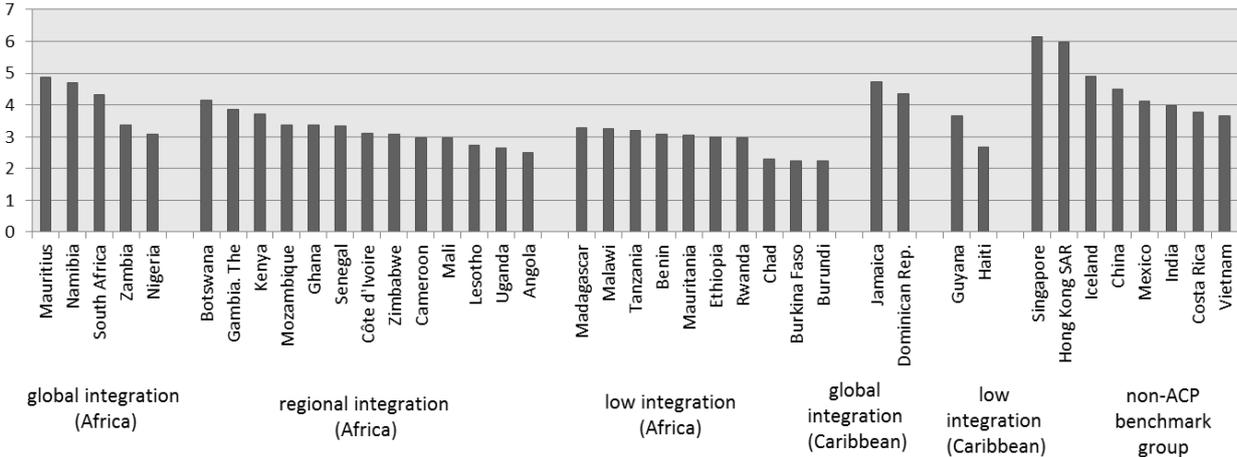


Graph 7 Performance of ACP countries along the logistics supply chain, based on the World Bank’s Logistics Performance Index 2012.

Note: Index scores vary between 1 (worst) and 5 (best).

Source: Arvis et al., 2012.

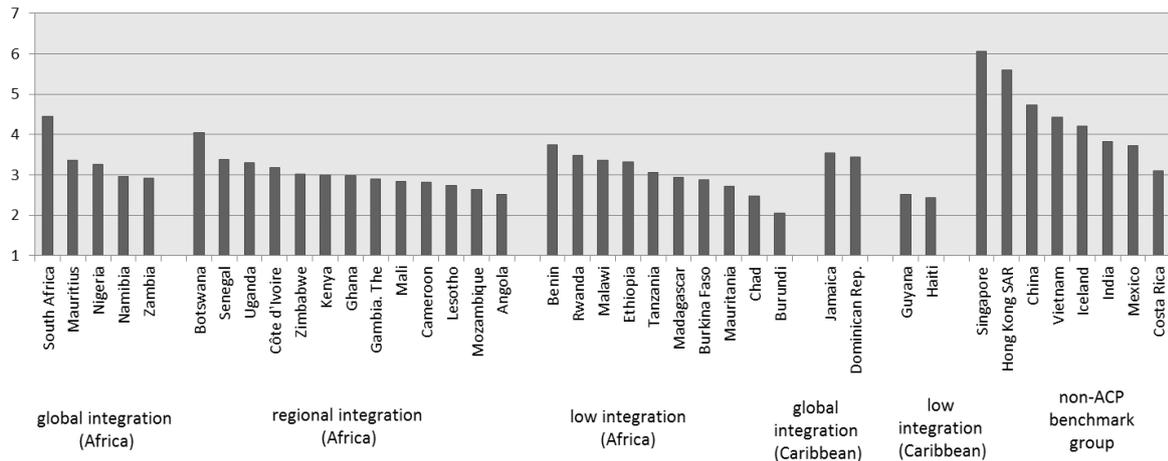
When looking at the countries' infrastructural performances, differences in the countries' records become clearer. *Graphs 8 and 9* illustrate both the availability and quality of transport infrastructure (8) and of transport services (9), based on the World Economic Forum's Global Enabling Trade index (2013) (see *Annex 20* for a description of the indexes). Results show that Mauritius, Namibia, South Africa and Botswana record the highest indices among African states, indicating relatively good transport *infrastructure*. The group of countries with a low integration level consistently records rather lower indices. The Caribbean countries contained in the data set perform relatively well, especially with Jamaica and the Dominican Republic recording as large indices as the best African performers. However, the magnitude of the indices decreases remarkably when looking at the availability and quality of transport *services* (*Graph 9*). While South Africa and Botswana, as well as Benin as a weakly integrated country, record the highest values for Africa; the other countries consistently record relatively low values. For the Caribbean states, again Jamaica and the Dominican Republic are best performers. This relatively low performance in transport services can probably be explained by poor infrastructure and not political barriers. Most countries recorded relatively low restrictions in these services according to the World Bank's services restriction database (compare *Annex 11*).



Graph 8 Availability and quality of transport infrastructure of ACP countries included in the World Economic Forum's Global Enabling Trade Index

Note: Index scores vary between 1 (worst) and 7 (best).

Source: Lawrence et al., 2012.

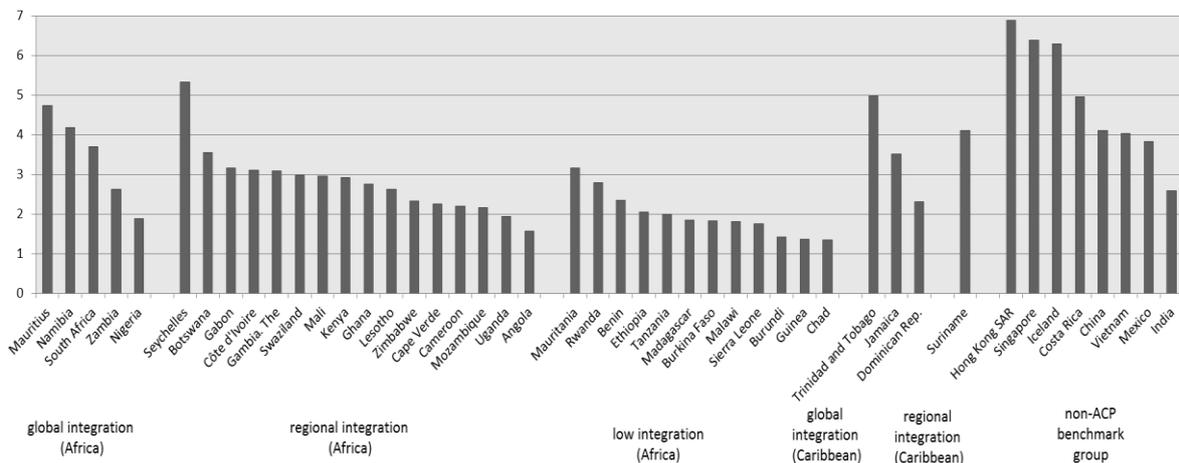


Graph 9 Availability and quality of transport services of ACP countries included in the World Economic Forum's Global Enabling Trade Index

Note: Index scores vary between 1 (worst) and 7 (best).

Source: Lawrence et al., 2012.

When looking at the performances in electricity and telephony<sup>20</sup>, based on data obtained from the World Economic Forum's Global Competitiveness Index (GCI) (Graph 10), it is striking that the Seychelles and Trinidad and Tobago are the best performers. Mauritius, Namibia, South Africa and Botswana are again among the best performers within the African states. Still, the remaining countries perform relatively low (scores less or equal to 3). The majority of countries contained in the low integration group perform relatively badly.



Graph 10 Quality of electricity and telephony in ACP countries, based on the World Economic Forum's Global Competitiveness Index 2013

Note: Index scores vary between 1 (worst) and 7 (best).

Source: Schwab and Sala-i-Martin, 2013.

<sup>20</sup> For index description see Annex 20.

The assessment of the different determining infrastructural backgrounds and conditions leads to the following conclusion: Among the group of highly integrated African countries, South Africa, Namibia and Mauritius are constantly relatively high ranked, indicating good infrastructure performances. Nigeria and Zambia record rather low values. Among the regionally integrated countries, Botswana is the best performer; whereas the Seychelles is ranked considerably well for electricity and telephony. However, the majority of the countries grouped as regional powers perform rather poorly. This is also the case for the low integrated countries. For the Caribbean states, the Dominican Republic and Jamaica as the two countries classified as globally integrated perform relatively well. And in all cases except the partial exceptions of Costa Rica and Vietnam, the ACP group performs worse<sup>21</sup>.

### *Institutional framework*

Besides basic infrastructural requirements, the institutional framework of a country is a critical factor influencing its attractiveness for value chain participation. Well-developed institutions guarantee reliable and efficient business processes and activities. Within the institutional framework, property rights and functioning business processes that are not subject to corruption emerge from the literature as decisive for MNCs. We therefore first consider the general institutional quality of the ACP countries and subsequently look at two sub-indices - property rights and corruption – in detail.

Taking the WEF's Global Competitiveness Index sub index *institutions*<sup>22</sup> as a first general overview of the quality of institutions, *Annex 12* shows that only a few African countries record relatively high values indicating a more business friendly environment. Remarkably, Rwanda as a country among the group of low integrated countries records the highest value, indicating the best institutions. Again, Mauritius, South Africa, Namibia, Zambia and Botswana record relatively high index values. However, the majority of African countries are relatively business unfriendly, as indicated by the index, with Mali, Angola, Mauritania, Burundi and Chad recording the lowest values. For the Caribbean states, Barbados records relatively high values comparable to the high records of the best performing African states. Other countries record relatively low values, with Haiti being the lowest performing country. A low value is also recorded by Timor-Leste as the only Pacific country included in the data set.

The importance of the quality of the institutional framework is confirmed when looking at the index of *property rights*<sup>23</sup> separately, which is extracted from the overall institutions index (see *Annex 13*; some countries are missing, though). Best performers are again South Africa, Namibia, Mauritius, Botswana, Rwanda and now the Gambia. However, as to be expected, the remaining countries record low values for the property rights index.

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<sup>21</sup> For detailed evaluation, a consideration of further aspects influencing the performance of the non-ACP benchmark is necessary. Costa Rica for example benefited considerably from the geographic proximity to Panama and its relatively good governance.

<sup>22</sup> For index description see *Annex 20*.

<sup>23</sup> For index description see *Annex 20*.

Taking the Corruption Perception Index by Transparency International (CPI)<sup>24</sup> as a further indicator for a country's business environment, the results are striking (see *Annex 14*). Botswana is the only African country with a corruption level classified as low corruption (score slightly above 60). Mauritius, Namibia, South Africa, Cape Verde, Seychelles, Ghana, Lesotho and Rwanda are classified as medium corruption, whereas the remaining countries are all highly or very highly corrupt. In contrast to that, three Caribbean countries are classified with low corruption (Barbados, the Bahamas and St. Lucia), whereas the remaining countries record values indicating medium and high corruption. The two Pacific countries included in the dataset are classified as highly corrupt.

These results demonstrate that institutional circumstances vary strongly. Whereas corruption is a major problem in most of the countries, it is possible to identify a group of countries with reasonably good institutional settings, with Rwanda as a low integrated country being the best performer, followed by the globally integrated countries Mauritius, South Africa, Namibia, Zambia, and regionally integrated Botswana. However, it is important to note that a similar differentiation emerges amongst the non-ACP group, with Singapore, Hong Kong (SAR) and Iceland consistently performing at the top of our benchmark for all three indicators. Costa Rica, perhaps surprisingly, does not stand out, whereas India, Vietnam, China and Mexico all exhibit relatively weak institutional environments judging from these scores. Interestingly, the last three are, clearly, integrated into global value chains owing to their huge labor forces. All three, however, face substantial challenges to upgrade within GVCs.

### *Workforce development*

Workforce development is a key element of a country's competitiveness and is a basic requirement for the country's participation in GVCs. For a consideration of basic workforce requirements, the WEF's Global Competitiveness Index sub-index of *health and primary education*<sup>25</sup> is illustrated in *Annex 15*.

Mauritius, Seychelles, Cape Verde and Rwanda record the highest values in health and primary education. The remaining countries are ranked relatively low, with Côte d'Ivoire, Mali, Sierra Leone and Chad being ranked lowest. In contrast to that however, the Caribbean countries record relatively high values, with Barbados ranking highest.

Evidently, basic workforce development remains an urgent issue for almost all of the African countries, also for the ones being already globally integrated (except for Mauritius). By contrast, and as intimated above, the comparator group performs notably better than the ACP group on this measure, indicating readiness to participate in GVCs on a level not available to most ACP countries.

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<sup>24</sup> For index description see *Annex 20*.

<sup>25</sup> For index description see *Annex 20*.

### 3.4.2 Business sophistication

Having considered basic requirements for general participation in GVCs, it is now interesting to look at factors influencing the probability of upgrading processes which lead to higher value added production within existing value chains. These factors are of special relevance for regional powers, as well as for already highly globally integrated countries. The quality of business networks and firm's operations within a country is a major determining factor for the degree of business sophistication. In addition, firm's capacities to innovate are crucial for upgrading opportunities and processes. Furthermore, a major determining factor is additional workforce development in terms of higher skilled workers that are able to meet the demands of MNCs. Moreover, the setting of global standards often requires upgrading processes, which makes a flexible and well educated workforce all the more important (Cattaneo et al. 2013).

#### *Business sophistication and value chain breadth*

The WEF's Global Competitiveness Index' sub index of *business sophistication*<sup>26</sup> is a first general indication of the countries' quality of business networks and the firms' operations, as illustrated in *Annex 16*. Evidently, the majority of the depicted ACP countries record values below 4, indicating a rather less developed business sophistication environment. However, South Africa, Mauritius and Barbados record relatively high values. Still, the low performance in business sophistication gets even clearer when looking at the sub index of *value chain breadth*, which is an indicator of business sophistication according to the Global Competitiveness Report (see *Annex 17*). In this connection, the DHL Connectedness Index distinguishes between the depth and the breadth of value chains, resulting in a distinction between international (depth) and global (breadth) connectedness. Accordingly, global connectedness requires an even distribution of a country's international interactions (Ghemawat and Altman, 2011). In the WEF's Global Competitiveness Index' sub index the breadth of the countries' value chains is illustrated by ranging from narrow (score 1) where countries are mainly involved in resource extraction or production to broad (score 7), where countries are performing more sophisticated production steps such as product design, marketing or after-sales services (Schwab and Sala-i-Martin, 2013). Looking at *Annex 17*, the value chain breadth of most of the ACP countries depicted in the table is relatively narrow. Remarkably, Mauritius is the only country recording an index value above 4, indicating the broadest value chain breadth<sup>27</sup>. However, as stated in the DHL Global Connectedness Index, equal weights can be assigned to the depth and breadth of value chains, since the success of best performing countries is based on a mix of strengths along both dimensions of connectedness (Ghemawat and Altman, 2011), which slightly mitigates the indicator's

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<sup>26</sup> For index description see *Annex 20*.

<sup>27</sup> Strikingly, Nigeria scores slightly higher than South Africa, indicating a broader presence of Nigerian firms across the value chain. However, this result has to be seen with caution. Contradicting a high diversification of the Nigerian economy, Adenugba and Dipo (2013) state that Nigerian exports are still dominated by crude oil exports, despite efforts of export diversification since the 1970s. South Africa however has a considerably diversified export basket in comparison to the averages of developing countries (Naudé and Rossouw, 2008).

significance. Finally, it is important to note that of the comparator basket of countries; only Vietnam performs relatively poorly, on par with most of the ACP group covered, whereas the rest score relatively well. Since these countries are already integrated into GVCs to greater or lesser extents this result perhaps bodes well for their upgrading chances.

### *Innovation capacity*

When assessing the WEF's GCI sub index *innovation*<sup>28</sup>, comprising for example capacities to innovate, research and development qualities and spending, the index values are even lower for all the ACP countries contained in the dataset (see *Annex 18*). This result is striking, since an innovation friendly environment is especially important for upgrading objectives and processes and a resulting higher business sophistication. Again, the comparator countries, with the partial exception of Vietnam, compare favorably.

### *Higher education*

Another restriction for increased business sophistication becomes clearer when considering the sub index of *higher education and training*<sup>29</sup> (see *Annex 19*). Again, all African countries record relatively low values, with Mauritius, South Africa and Seychelles still being the highest ranked countries. Remarkably, Barbados is by far the best performer among all the countries, with Trinidad and Tobago, Jamaica and Guyana ranking relatively high among the Caribbean countries. Strikingly, the comparator countries, including Vietnam to some extent, perform notably better on this index.

## **3.5. The case of small and remote islands**

Indices analyzed in section 3.3 barely contain data covering the small islands in the ACP, particularly the Pacific Island states. In addition to their small sizes, the Pacific islands are also characterized by their remote location. This is by nature detrimental to the integration into GVCs, since it raises transportation costs relative to the value of goods and services.

The World Bank's Doing Business Report 2014 (World Bank, 2013a) outlines the extent of regulation that domestic small and medium-size businesses are facing; accordingly we next analyze this data with respect to the island states not covered in section 3.3. *Graph 11* shows the country rankings according to the *ease of doing business* index<sup>30</sup>. Evidently, Mauritius is by far the island with the best business environment for small and medium-size enterprises. By contrast, the African island states Comoros, and Sao Tomé and Príncipe, are ranked considerably low. Among the Pacific island states, Tonga, Samoa and Fiji perform best, whereas Kiribati, Micronesia and Timor-Leste record considerably low values, indicating business unfriendly environments. However, the lowest value is recorded by the Caribbean

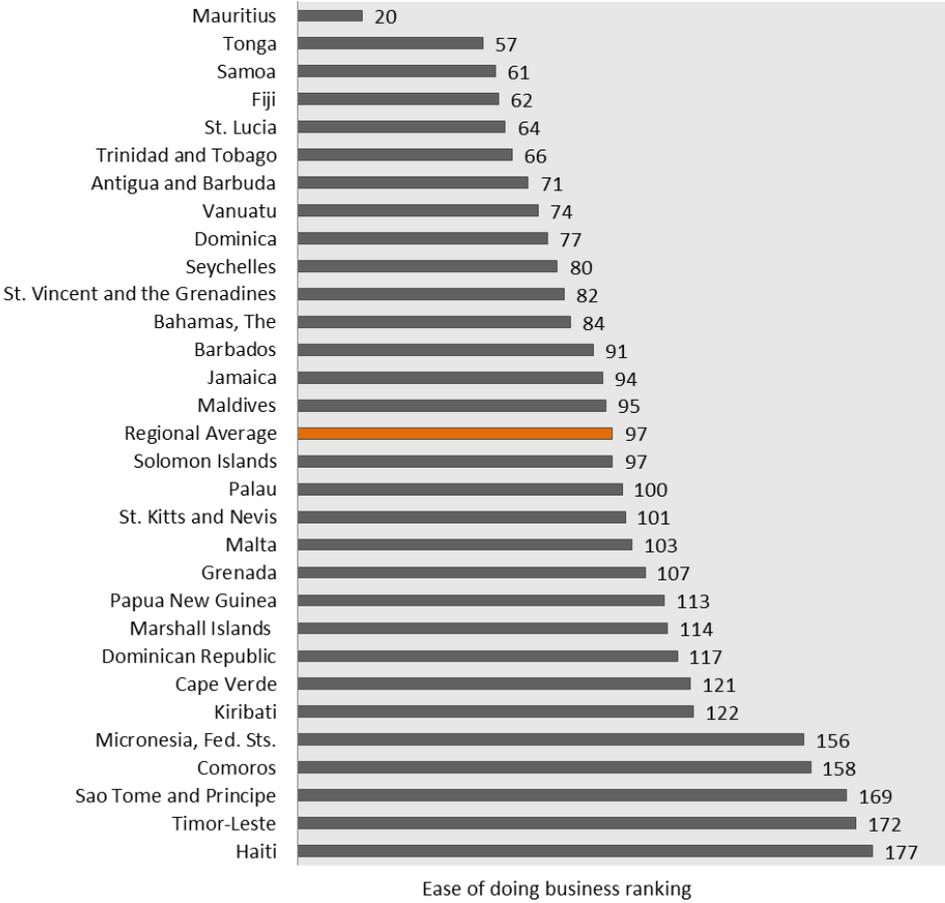
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<sup>28</sup> For index description see *Annex 20*.

<sup>29</sup> For index description see *Annex 20*.

<sup>30</sup> For index description see *Annex 20*.

state Haiti, while St. Lucia, Trinidad and Tobago, and Antigua and Barbuda are the best performers among the Caribbean states.<sup>31</sup>

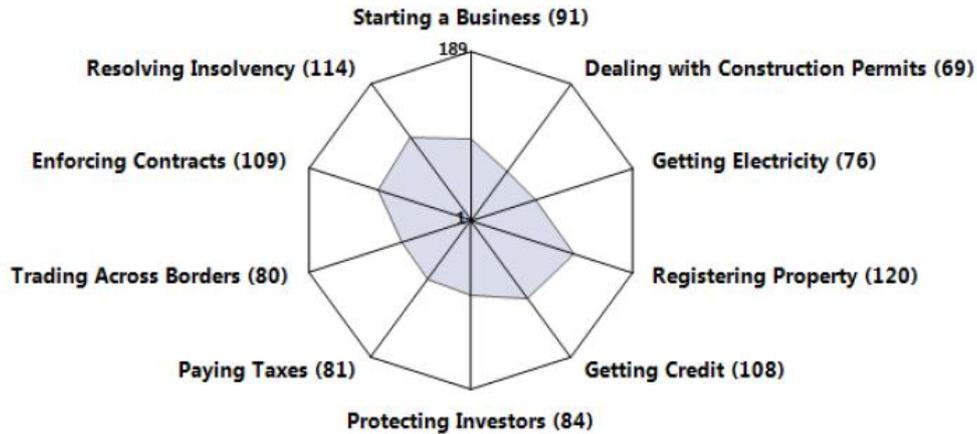


Graph 11 Country rankings of the ease of doing business index of small island states

Source: World Bank, 2013a.

Graph 12 depicts the average small island states’ rankings for the 10 topics included in the ease of doing business index. As expected from the islands’ ranks, the regional average rankings in the different topics are constantly relatively low. Still, the sub-indices ‘dealing with construction permits’ and ‘getting electricity’ are highest ranked on the average, while ‘registering property’ and ‘resolving insolvency’ rank lowest.

<sup>31</sup> The regional average value includes the doing business values of Malta and the Maldives as small island states.



Graph 12 Average small island states' rankings for the sub-indices included in the ease of doing business index.

Source: World Bank, 2013a.

### 3.6 Identification of general problems and challenges

In light of the previous assessment of different indices addressing basic trade enabling requirements and aspects for business sophistication, an identification of groups of countries facing similar problems and challenges is possible.

Among the African countries that have been classified as globally integrated based on the KOF Globalization Index, Mauritius, Namibia and South Africa reveal a remarkably sound institutional setting, except for the overall high corruption problem. However, whereas the availability and quality of transport infrastructure, electricity and telephony are still largely expandable, the major challenge they face is the improvement of business sophistication and innovation capacities. Furthermore, the fostering of higher workforce development and removing restrictions on foreign professional services providers are additional challenges to be confronted in order to enhance upgrading capacities. However, among the group of globally integrated countries, Nigeria is an especially striking exception. As the major recipient of FDI inflows and the major exporting country of mineral fuels, it seems to suffer from the resource curse. At least, it comes off rather badly concerning the business and trade environment, with a relatively poor performance of the infrastructure and institutional settings. Presumably, embedding its significant trade and investment performance in an enhanced institutional, business and trading environment would allow for improved sophistication and innovation capacities.

The problem of business sophistication and increased innovation capacities exists as well for all the countries initially classified as regional powers. However, distinctions between the countries have to be made. Botswana is constantly among the best performers for all the indices, with a remarkably sound institutional setting. Countries which are constantly ranked among the lowest performers include Angola, Mali, Lesotho and Cameroon. For these countries, the fulfillment of basic trade enabling requirements is the most urgent challenge. Furthermore, a number of countries record relatively high market access on the one hand

but low infrastructural and institutional performances on the other hand. Among those countries are Mozambique, Uganda and Kenya.

Among the low integrated countries, Rwanda is the most striking. While it reveals a well-developed institutional setting and relatively high market access, it performs relatively poorly in infrastructural aspects. The fact that it is landlocked presumably compounds these infrastructural deficits. The remaining countries in this group reveal a rather less developed business and trading environment. The need to strengthen institutional settings and to expand infrastructure is especially pressing in these cases. Still, divergences between the group members are noticeable. Whereas Madagascar, Malawi, and Burundi record a relatively high openness of services sectors to FDI, Tanzania and especially Ethiopia are highly restricted.

For the Caribbean states in the dataset, good institutional frameworks and high rankings in health and primary education are notable. Barbados is the best performing country in relation to the restricted number of Caribbean states included in the data. However, in common with the globally integrated African countries issues of business sophistication and innovative capacities remain of concern.

When considering the business environment of the group of small island states, it is clear that they face major challenges except for Mauritius. This poor performance is especially high for Haiti, Timor-Leste and Sao Tomé and Príncipe. This underlines the need for an improved institutional framework to ensure functioning business processes and to open opportunities for value chain participation.

#### **4 Identifying policy options**

The foregoing analysis has shown the enormous heterogeneity among the ACP members. While it has brought some patterns to the fore, it has also revealed many differences. Therefore, it is neither possible nor desirable to come up with detailed policy proposals for the whole group. Given the general scope of this paper we also refrain from detailed proposals for single countries. Nevertheless, some warnings are warranted and some measures seem inevitable.

All measures to enhance integration into GVCs heavily depend on the institutional quality and governance structure in a country. Corruption, poorly defined property rights, weak rule of law and the like, render all measures directed at human capital formation, infrastructure investments, and trade facilitation ineffective. This is the first and foremost lesson of the analysis. Many ACP countries have done much in that respect; but more can be done. The struggle for better institutions is a permanent one.

Next, and as agreed by many observers, we want to stress that infrastructure is a decisive bottleneck of development in many ACP countries. To be part of the global production network, locations must be well connected to world markets. ODA may well be used to

finance infrastructure investments. Interestingly, infrastructure services liberalization does not seem to matter so much in its own right, but taken in combination with the availability, cost, and quality of infrastructure this situation would surely change. In other words, there is likely to be a virtuous circle between better infrastructure, and better infrastructure services that are more competitively provided.

Furthermore, the workforce has to be fit for the requirements of GVCs, which implies a solid knowledge and skill base (stocks) and – more important – the ability to adjust to new challenges (flows).<sup>32</sup> Therefore, education plays a decisive role. In particular, it is not enough to provide basic schooling. To attract MNCs, regardless of their size and importance, requires general skills, e.g. language and managerial skills as well as vocational training for those who do not attend universities. Governments in ACP members should invest more in these skills and also search for tools for life-long learning that enable workers on all educational levels to adjust to structural changes. Especially crucial are skills in information technology and language training. In addition, careful thought has to be given to importation of professional services to supplement local endowments where skills are scarce, which is particularly relevant for managerial capabilities. MNCs interested in upgrading are unlikely to invest should the skills not be available in the host country – whether local skills or foreign. Foreigners can also be harnessed to train locals, which highlights the knowledge transfer benefits of hosting MNCs.

Even though market access did not emerge as a major constraint, it is our opinion that governments should minimize political barriers to trade. This includes tariffs, subsidies and other non-tariff barriers. Their dismantling is crucial for domestic productivity. The empirical trade literature has shown that productivity growth is increased by import competition. In addition, trade liberalization, particularly of intermediate and capital goods imports, reduces transactions costs and potentially transit times – crucial considerations for countries looking to get “fit for GVCs”, by attracting FDI from MNCs. In addition, administrative border processes can be streamlined and improved. In many ACP countries, the potential for this is high; and it does not cost much. Hopefully this will be easier after the WTO’s Bali agreement in 2013, and presumably ODA could be leveraged to support it. In order to support trade liberalization and facilitation, special economic zones could be particularly useful. An additional point is that FTAs with advanced countries – the source of much of the targeted MNC FDI, can play an important signaling role. In other words they reassure investors that the host country environment within which they are investing is compatible with the home country set up.

The classification of the ACP countries according to their current degree of global integration, as applied in this paper, is indicative of the basic mutual challenges each group of integration faces. Striving for upgrading opportunities, the basic challenge of the highly integrated ACP countries is increased business sophistication and innovation capacities. For

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<sup>32</sup> We thank Anabel Gonzalez, Trade Minister of Costa Rica, for useful comments on this issue.

that purpose, opening the professional services sectors to commercial presence is desirable, if sometimes politically fraught. In addition, opening to movement of natural persons is a vital step. This is amplified by the regional impact some ACP countries have, among them South Africa and Nigeria which are important regional growth poles as suggested by Ogunleye (2011).

The ACP governments should engage even more in South-South trade. For this purpose, special economic zones may be a good instrument, attracting those firms that initiate growth poles. The regional dimension is extended when considering the group of regionally integrated countries, among which Botswana, Kenya and Angola as further African growth poles are notable. For this group, ongoing expansion and improvement of basic infrastructural and institutional requirements is necessary to ensure the appropriate business environment for concurrent sophistication measures. However, the group of weakly integrated countries faces for the most part basic challenges of infrastructure development and improvement of institutional settings in order to facilitate value chain participation and to ensure adequate responsiveness to stimuli by surrounding growth poles. An improved institutional framework is also the major challenge for the group of small and mostly remote islands.

After these suggestions, which do not come as a surprise, a substantial warning is warranted. As seen in Speakman and Koivisto (2013), there is still a deep faith in the ability of governments to invest properly into future profitable investment. This faith may not be justified by past experience; governments everywhere regularly select losers and mispend investments funds. One reason is that governments simply do not have perfect knowledge. Private agents also do not, but because they invest their own money, they have an incentive to assess the alternatives more carefully. Furthermore, governments are subject to rent-seeking activities. Huge public investment funds attract rent-seekers as well as breed corruption. With a clear commitment to concentrate on horizontal measures such as described above, governments may be able to resist the rent-seeking sirens and reduce corruption. Furthermore, for institutionally challenged states getting the horizontal agenda right is a complex, indeed daunting task.

This message has not been heard everywhere. The policy measures proposed in the Economic Report on Africa show a deep misunderstanding of the relevant problems (UNECA, 2013, pp. 12-14). They suggest among others 'adoption and implementation of a coherent industrial policy', an 'appropriately directed local content policy', 'strategic interventions to insert indigenous firms in supply chains' and more 'coordination among ministries'. The impulses behind these proposals are understandable, since they are clearly directed at bootstrapping African private sectors into RVCs. However, the instruments all remind of the 1970s – import substitution with a modern face. They are also not conducive to attracting MNCs to relocate tasks in their GVCs to the countries implementing such measures (Bhatia, 2012). They may be more compatible with building RVCs than GVCs, by seeking to replace imports behind a regional protective wall, but if all countries in a region were to adopt such

policies the result would almost certainly be to raise barriers amongst themselves. This highlights the need for regional coordination, but such calls have been observed in the breach in Africa and elsewhere. Hence, if pursued outside of the context of horizontal measures, they are likely to generate regional frictions, particularly since there are already dominant economies in all ACP sub-regions which would probably capture most of the (visible) static gains (Draper, 2010). A final point is that building RVCs in this way would not be conducive to long term competitiveness, and therefore sustainability.

Having said that there is clearly space for governments to pursue MNC FDI using smarter measures. Properly resourced investment promotion agencies come to mind. These need to be sufficiently resourced, politically autonomous, and have access to the highest decision makers in the country. Then these agencies can play an important role in convincing MNCs – which generally have many offers on the table from other countries – to invest in the host country. Similarly, targeted investment incentives could have a role to play although poor countries, such as those that comprise the ACP, have to be careful not to undermine their tax bases. They also need to ensure that the provision of such subsidies is managed by autonomous agencies subject to rigorous independent oversight in order to avoid damaging rent seeking activities. But at the end of the day if the institutional and infrastructural environment is lacking, then MNCs are unlikely to invest in the aspirant country barring in resource extraction. Related to this, countries with significant resource endowments should as a basic step concentrate on using those endowments optimally in order to support value chain integration and upgrading. Central to this is maximizing revenue flows, and reinvesting those revenues in the horizontal measures advocated in this report and elsewhere. Of particular importance is to ensure that decisions to actively pursue transformative policies, such as enabling forward linkages for domestic firms, are based on sound business cases. That requires strong, capable, smart institutions to develop them, which demands sufficient revenues to establish such institutions, which returns the circle back to wise resource management in the interest of the whole society (OECD, 2013b, 44).

The upshot is that development can be supported, and nudged along, but absent central planning not steered. By improving the investment climate and strengthening the resilience of domestic firms and workers in combination with institutional reforms, governments can do a lot to enhance a country's participation in global production networks. For generally poor countries, this is, relatively speaking, a big agenda and should not be underestimated. By intervening too heavily, however, governments may spoil their chances of success.

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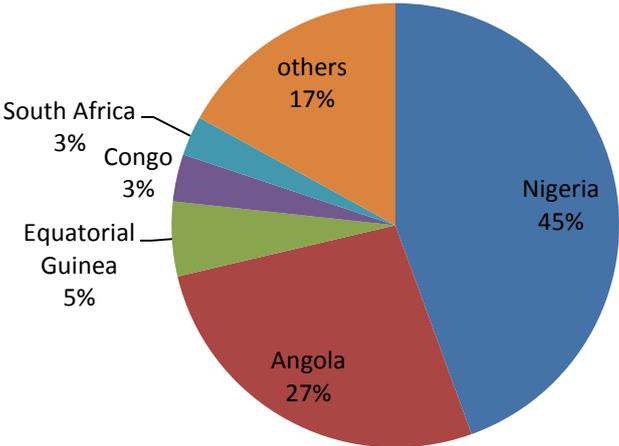
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# Annexures

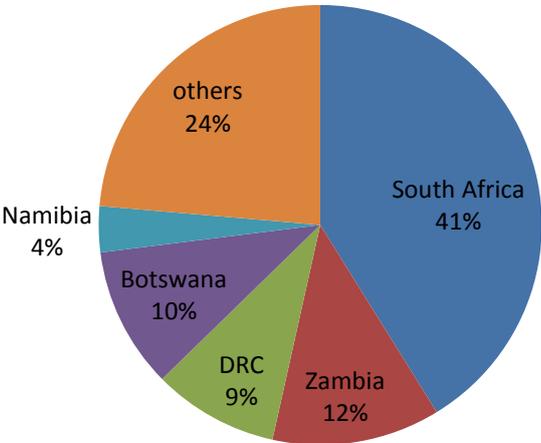
Annex 1 Export shares of the five major export countries in Sub-Saharan Africa for 2012, divided by major export products

Annex 1a Export shares of the five biggest export countries of mineral fuels, lubricants and related materials in Sub-Saharan Africa



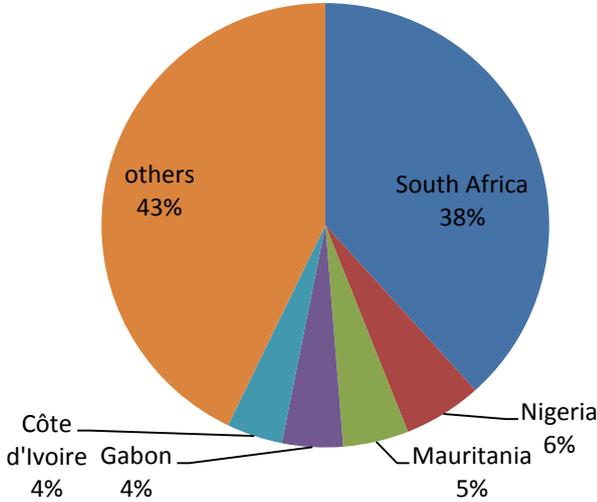
Source: UNCTADStat, 2013a.

Annex 1b Export shares of the five biggest export countries of manufactured goods in Sub-Saharan Africa



Source: UNCTADStat, 2013a.

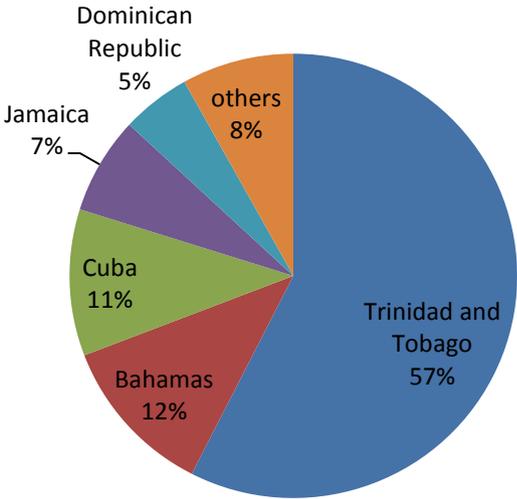
Annex 1c Export shares of the five biggest export countries of crude materials (inedible, except fuels) in Sub-Saharan Africa



Source: UNCTADStat, 2013a.

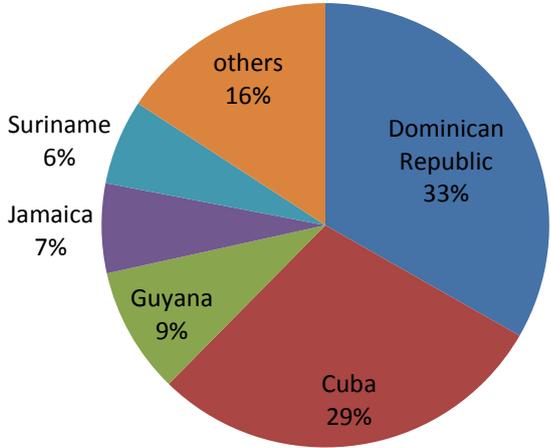
Annex 2 Export share of the five major export countries in the Caribbean for 2012, divided by major export products

Annex 2a Export shares of the five biggest export countries of mineral fuels, lubricants and related materials in the Caribbean



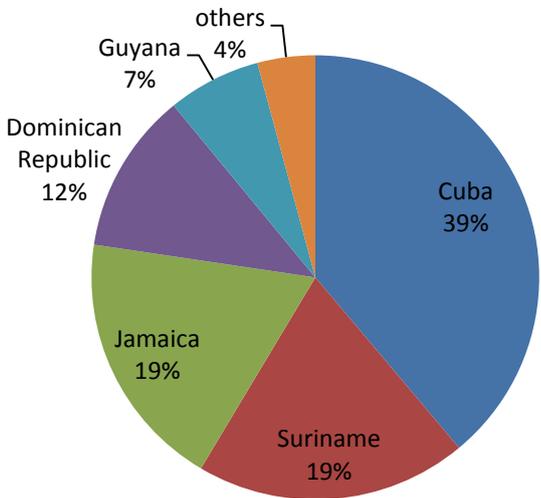
Source: UNCTADStat, 2013a.

Annex 2b Export shares of the five biggest export countries of food and live animals in the Caribbean



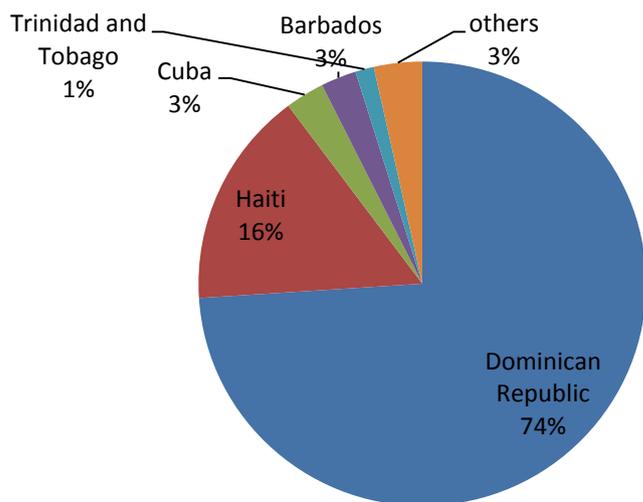
Source: UNCTADStat, 2013a.

Annex 2c Export shares of the five biggest export countries of crude materials (inedible, except fuels) in the Caribbean



Source: UNCTADStat, 2013a.

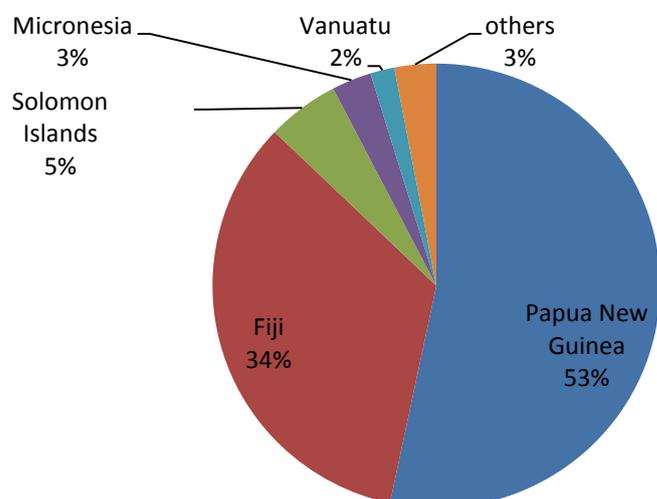
Annex 2d Export shares of the five biggest export countries of miscellaneous manufactured articles in the Caribbean



Source: UNCTADStat, 2013a.

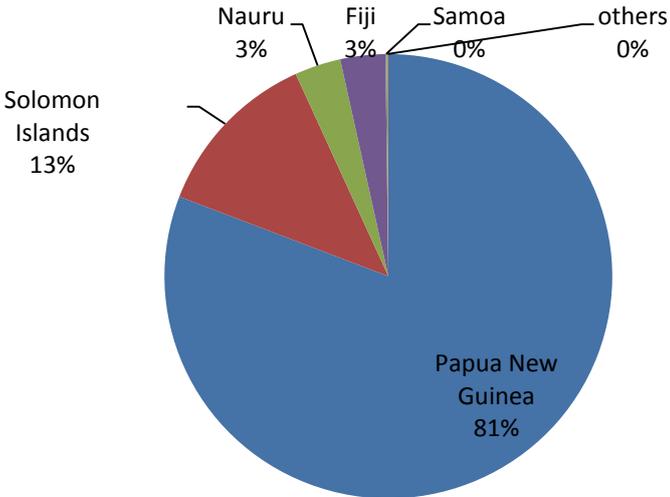
Annex 3 Export share of the five major export countries in the Pacific for 2012, divided by major export products

Annex 3a Export shares of the five biggest export countries of food and live animals in the Pacific



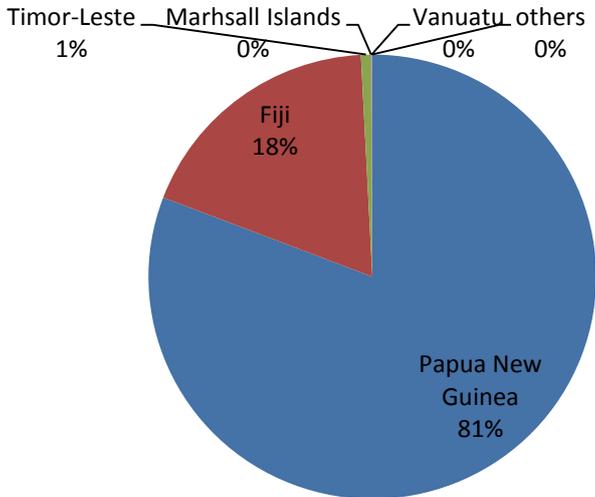
Source: UNCTADStat, 2013a.

Annex 3b Export shares of the five biggest export countries of crude materials in the Pacific



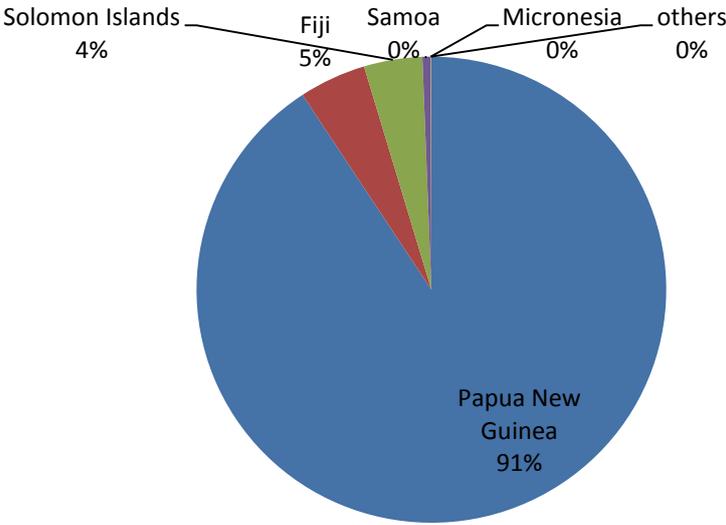
Source: UNCTADStat, 2013a.

Annex 3c Export shares of the five biggest export countries of mineral fuels in the Pacific



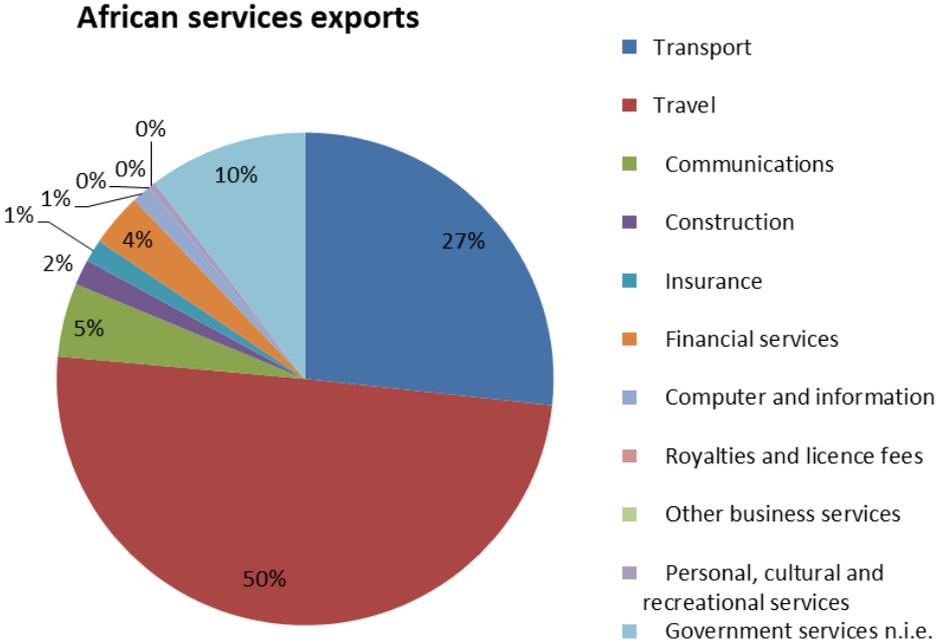
Source: UNCTADStat, 2013a.

Annex 3d Export shares of the five biggest export countries of commodities and transactions in the Pacific

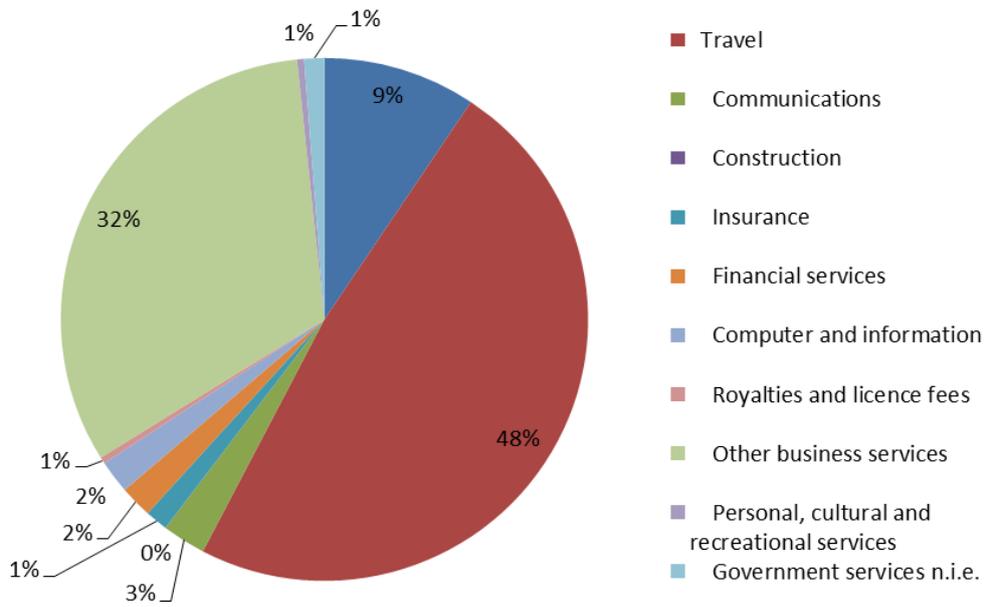


Source: UNCTADStat, 2013a.

Annex 4 Services exports of the African and Caribbean countries characterized by services groups, expressed in shares of total services exports for the year 2012



### Caribbean services exports

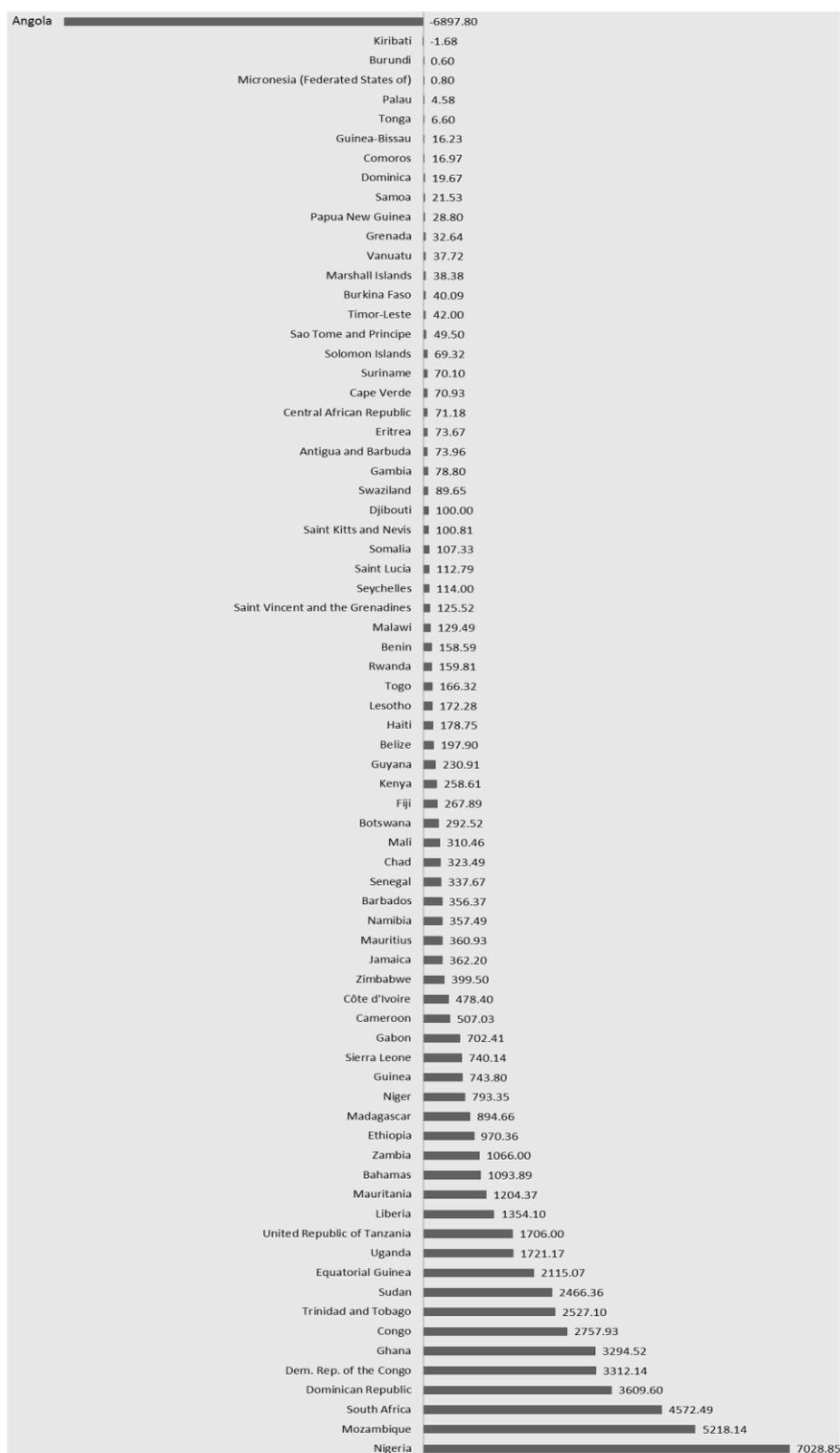


Source: UNCTADStat, 2013a.

Note: Data for the Pacific countries is not available.

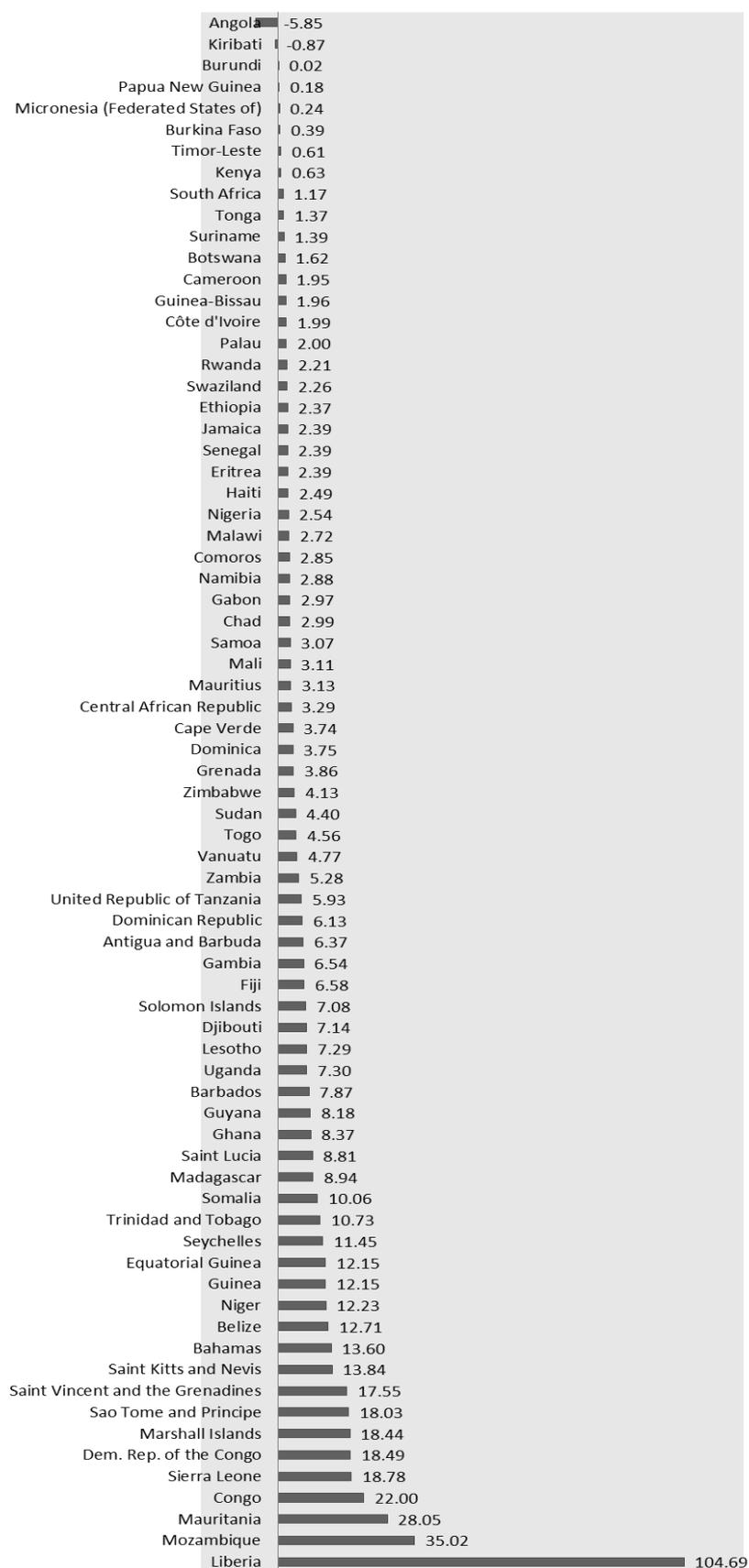
Annex 5 FDI inflows in ACP countries in total (millions of US Dollar) and relative (% of GDP) terms for 2012

Annex 5a FDI inflows in ACP countries in millions of US Dollar for the year 2012



Source: UNCTADStat, 2013b.

## Annex 5b FDI inflows in ACP countries in percent of GDP for the year 2012



Source: UNCTADStat, 2013b.

Annex 6 Classification of the developmental levels of the ACP countries according to their Human Development Index 2013

Very high human development	High human development	Medium human development	Low human development
Barbados Seychelles	Bahamas Cuba Grenada Trinidad and Tobago Antigua and Barbuda Dominica Saint Vincent and the Grenadines Jamaica Saint Lucia Palau Mauritius	Suriname Guyana Kiribati Tonga Samoa Fiji Gabon Micronesia (Federated States of) Vanuatu Timor-Leste Namibia Cape Verde Ghana Equatorial Guinea Swaziland Belize Gabon Botswana South Africa	Haiti Solomon Islands Papua New Guinea Congo Sao Tome and Principe Kenya Angola Cameroon Madagascar Tanzania (United Republic of) Nigeria Senegal Mauritania Lesotho Togo Uganda Zambia Djibouti Gambia Benin Rwanda Côte d'Ivoire Comoros Malawi Sudan Zimbabwe Ethiopia Liberia Guinea-Bissau Sierra Leone Guinea Burundi Central African Republic Eritrea Mali Burkina Faso Chad Mozambique Niger Congo (Democratic Republic of the)

Source: United Nations Development Programme, 2013.

Missing countries: South Sudan, Tuvalu, Somalia, Nauru and the Marshall Islands.

Annex 7 Classification of ACP countries according to domestic sectoral value added in the agriculture, industry and services sectors (in % of GDP for 2012)

Agriculture intensive (> 50%)	Industry intensive (> 50%)	Services intensive (> 50%)	Agriculture and Services	Industry and Services
Liberia Sierra Leone	Angola Congo, Rep. Mauritania Trinidad and Tobago Zambia Zimbabwe	Antigua and Barbuda Bahamas, The Benin Botswana Cape Verde Cuba Dominica Dominican Republic Fiji Gambia, The Ghana Grenada Jamaica Kenya Kiribati Lesotho Malawi Mauritius Palau Rwanda Samoa Senegal Seychelles South Africa St. Kitts and Nevis St. Lucia St. Vincent and the Grenadines Suriname Togo Tonga Tuvalu Uganda Vanuatu Zambia Zimbabwe	Burkina Faso Burundi Congo, Dem. Rep. Ethiopia Mozambique Tanzania	Guinea Guyana Sudan

Source: World Bank, 2013b.

Annex 8 Classification of ACP countries into global and regional powers according to the KOF Index of Globalization 2012

Globally important

Africa	Caribbean	Pacific
Mauritius Namibia Zambia South Africa Nigeria	Dominican Republic Jamaica Trinidad and Tobago	Fiji

Regionally important

Africa	Caribbean	Pacific
Angola Swaziland Botswana Seychelles Mali Mozambique Lesotho Zimbabwe Côte d'Ivoire Togo Kenya Gabon Cape Verde Cameroon Djibouti Ghana Gambia, The Uganda	Cuba Grenada Suriname	Papua New Guinea Samoa Vanuatu

Source: Dreher, 2006.

Missing countries: Republic of the Congo, Somalia, Antigua and Barbuda, the Bahamas, Barbados, Belize, Guyana, Cook Islands, Federated States of Micronesia, Marshall Islands, Nauru, Niue, Tonga and Tuvalu.

Annex 9 Classification of ACP countries based on the congruence of the KOF Index of Globalization and the World Economic Forums' Global Enabling Trade index

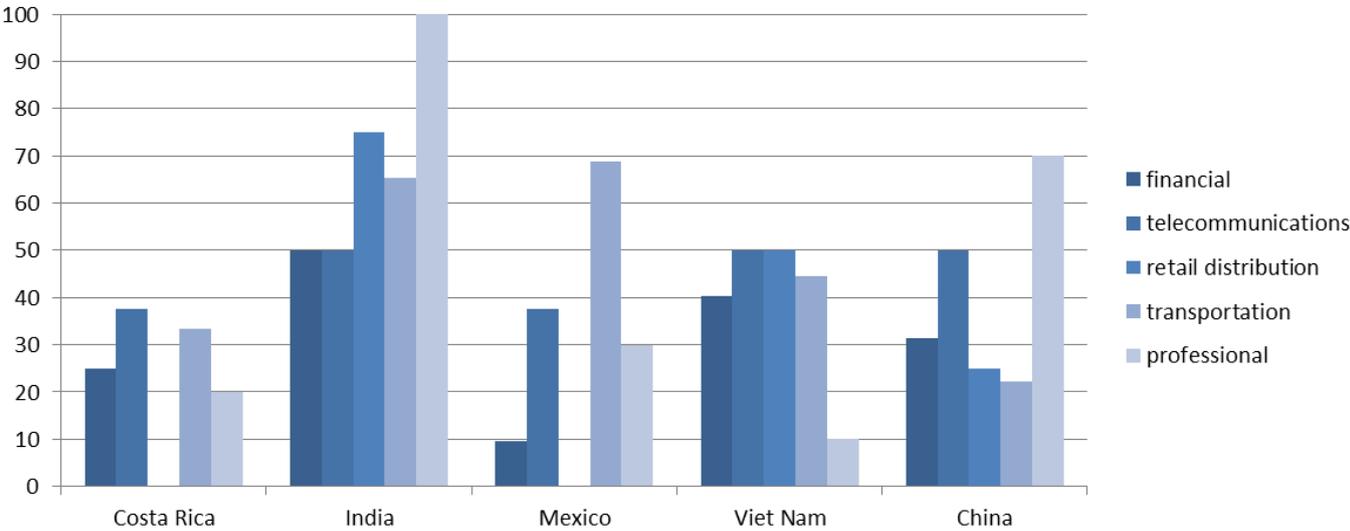
> World median	< world > African	< African	KOF > GET		KOF < GET	
			weak	strong	weak	strong
Mauritius South Africa	Ghana Kenya Mozambique Uganda	Benin Burkina Faso Burundi Chad Democratic Republic of the Congo Ethiopia Madagascar Mauritania	Angola Cameroon Côte d'Ivoire Lesotho Mali Namibia Zambia Zimbabwe	Nigeria	Botswana Malawi Tanzania	Rwanda

> World median	< world > Caribbean	< Caribbean	KOF > GET		KOF < GET	
			weak	strong	weak	Strong
	Dominican Republic Jamaica	Guyana Haiti				

Source: Dreher, 2006 and Lawrence et al., 2012.

Missing countries in the GET index include: Antigua and Barbuda, the Bahamas, Belize, Cape Verde, Central African Republic, Comoros, DRC, Republic of the Congo, Cuba, Djibouti, Dominica, Equatorial Guinea, Eritrea, Fiji, Gabon, Grenada, Guinea, Guinea-Bissau, Kiribati, Liberia, Niger, Sao Tome and Principe, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Seychelles, Sierra Leone, Somalia, Sudan, Swaziland, Togo, Trinidad and Tobago and all Pacific countries.

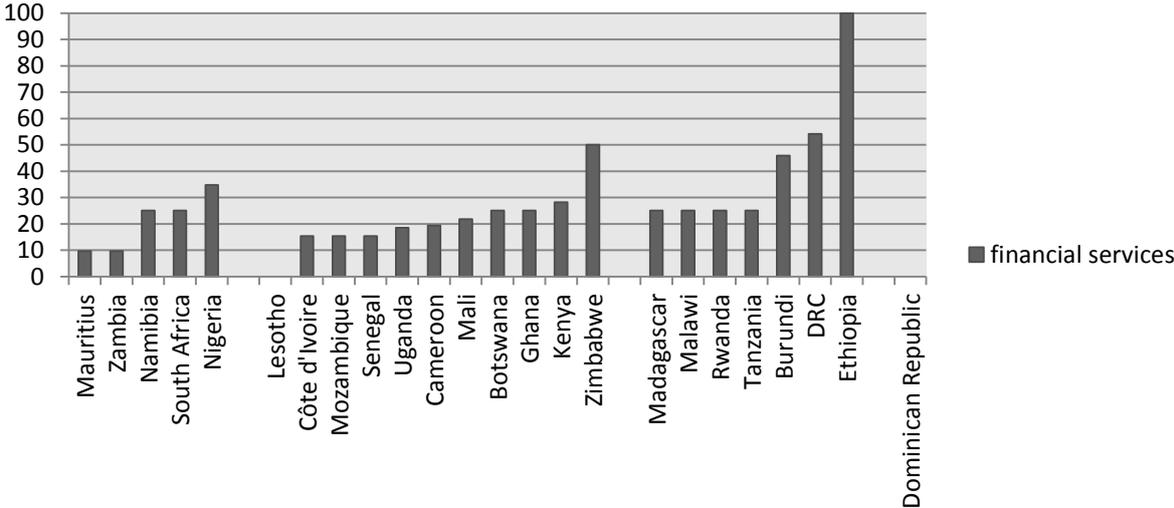
Annex 10 Openness to foreign suppliers of five services sectors (mode 3 of trade in services) of the non-ACP benchmark countries included in the World Bank’s services trade restrictions database <sup>33</sup>



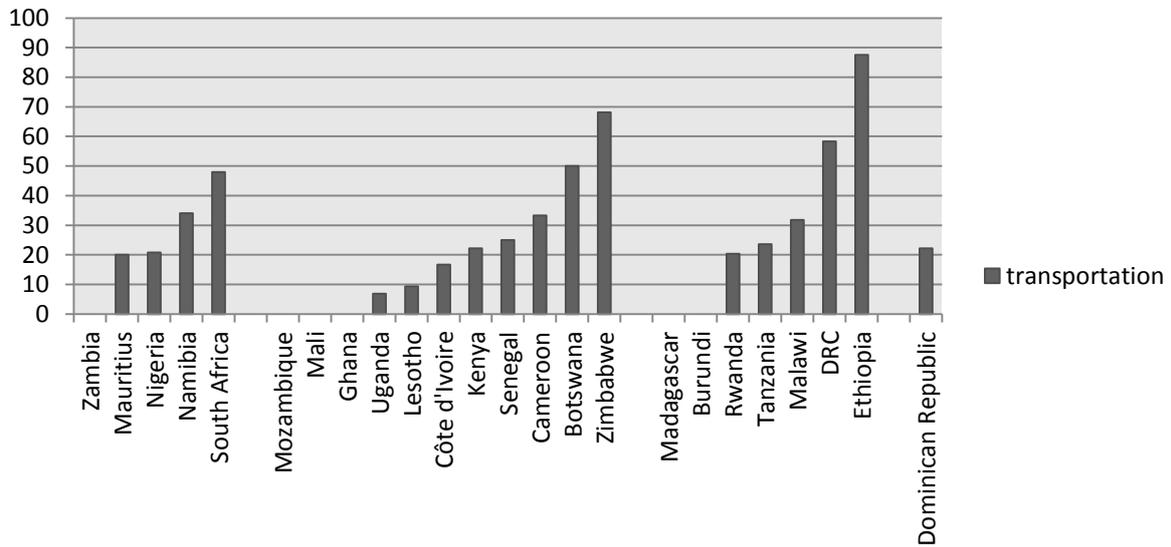
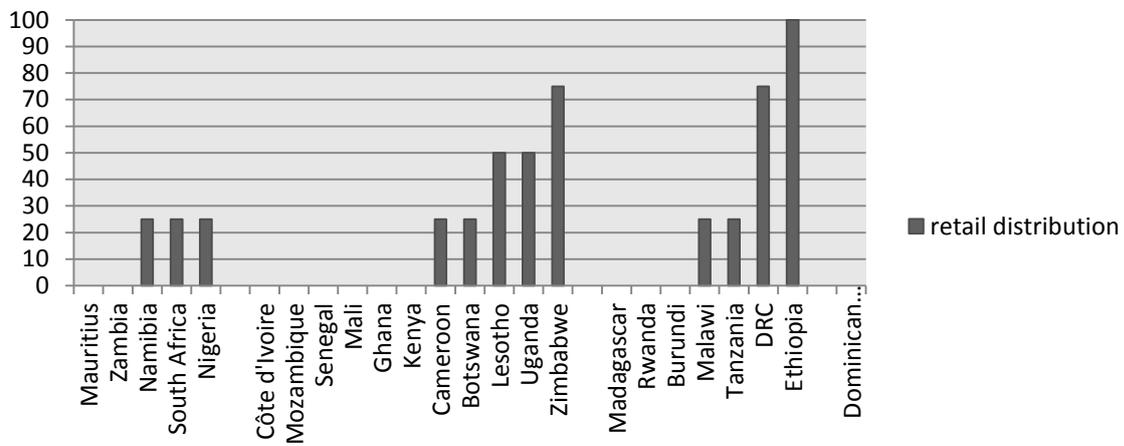
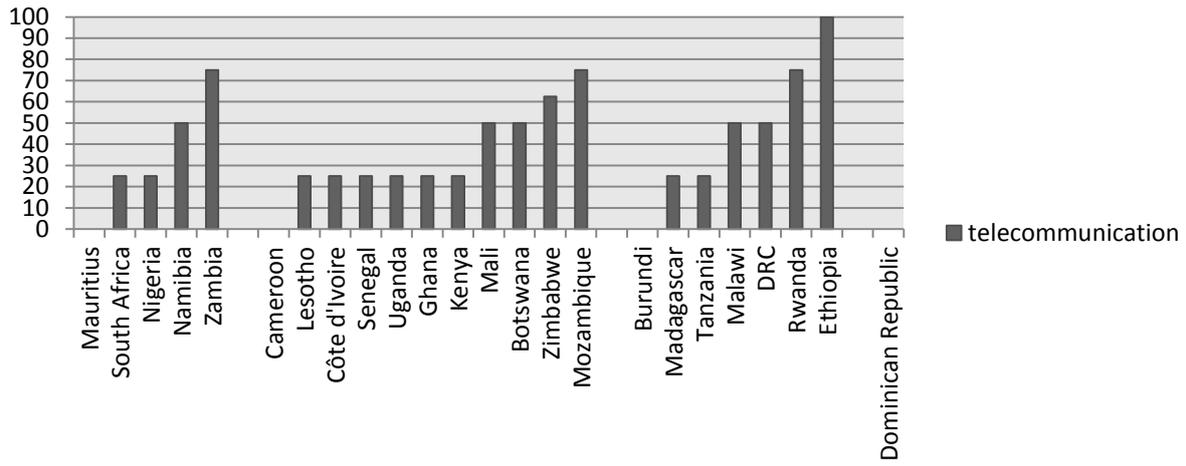
Source: Borchert et al., 2012.

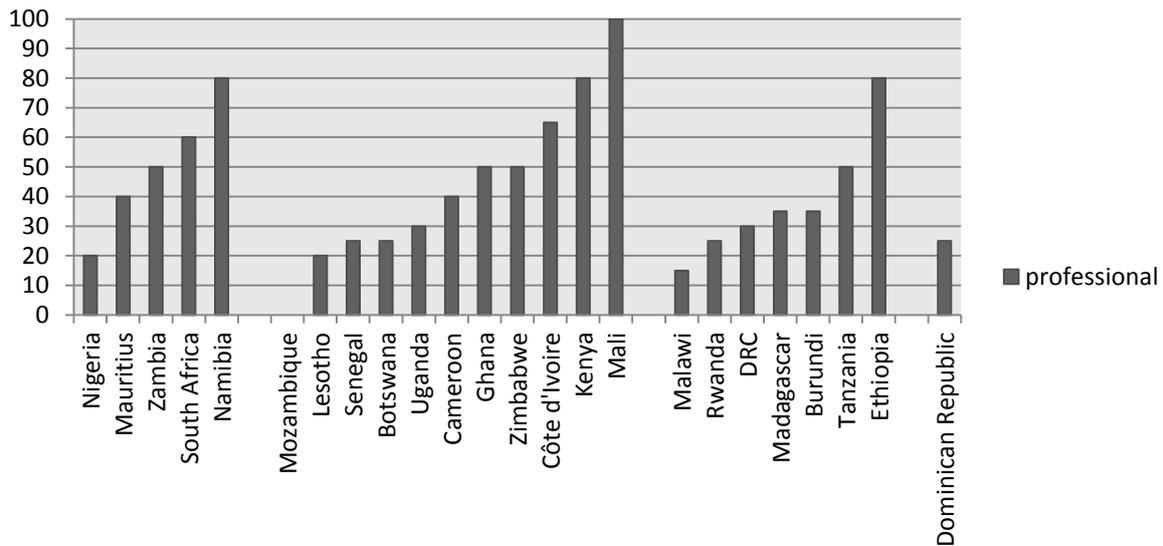
Note: the classification of the degree of restriction based on the index score is the following: completely open (0); virtually open with minor restrictions (25); major restrictions (50); virtually closed with limited opportunities to enter and operate (75) and completely closed (100).

Annex 11 Openness to foreign suppliers of five services sectors (mode 3 of trade in services) of ACP countries included in the World Bank’s services trade restrictions database



<sup>33</sup> Data for Hong Kong, Singapore and Iceland is not available.





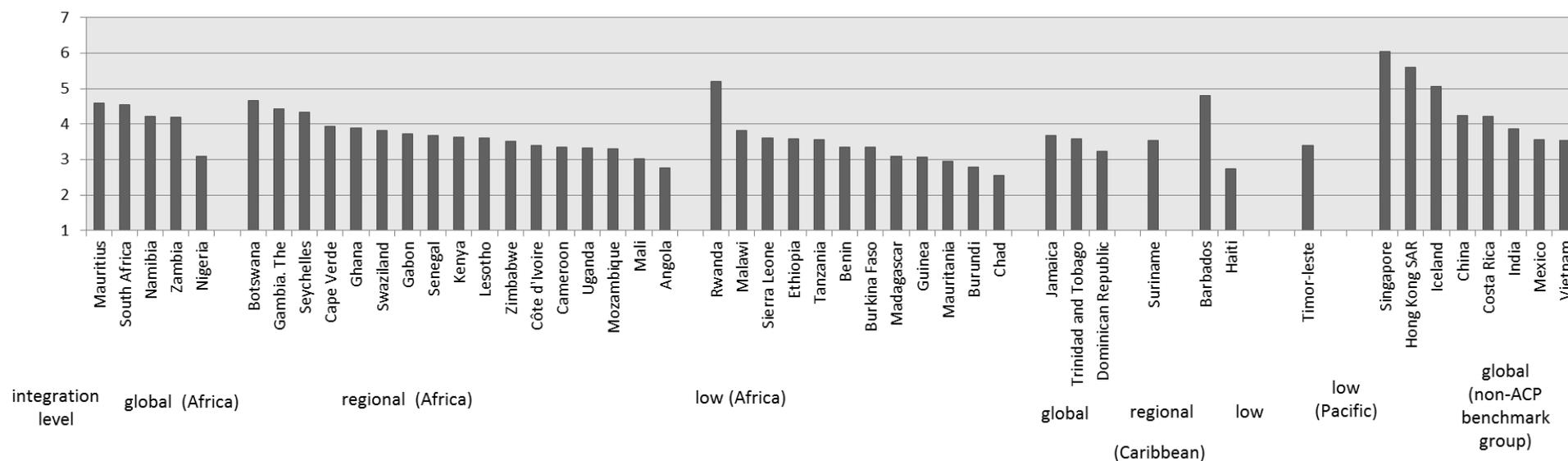
Source: Borchert et al., 2012.

Note: a low score indicates relatively greater openness.

Missing countries: Angola, Benin, Burkina Faso, Cape Verde, Central African Republic, Chad, Comoros, Djibouti, Equatorial Guinea, Eritrea, Gabon, the Gambia, Guinea, Guinea-Bissau, Liberia, Mauritania, Niger, Republic of the Congo, Sao Tomé and Príncipe, Seychelles, Sierra Leone, Somalia, Sudan, Swaziland, Togo, all Caribbean countries except the Dominican Republic and all Pacific countries

## Annex 12 Quality of institutions in ACP countries based on the World Economic Forum's Global Competitiveness Index 2013

Note: Index scores vary between 1 (worst) and 7 (best).

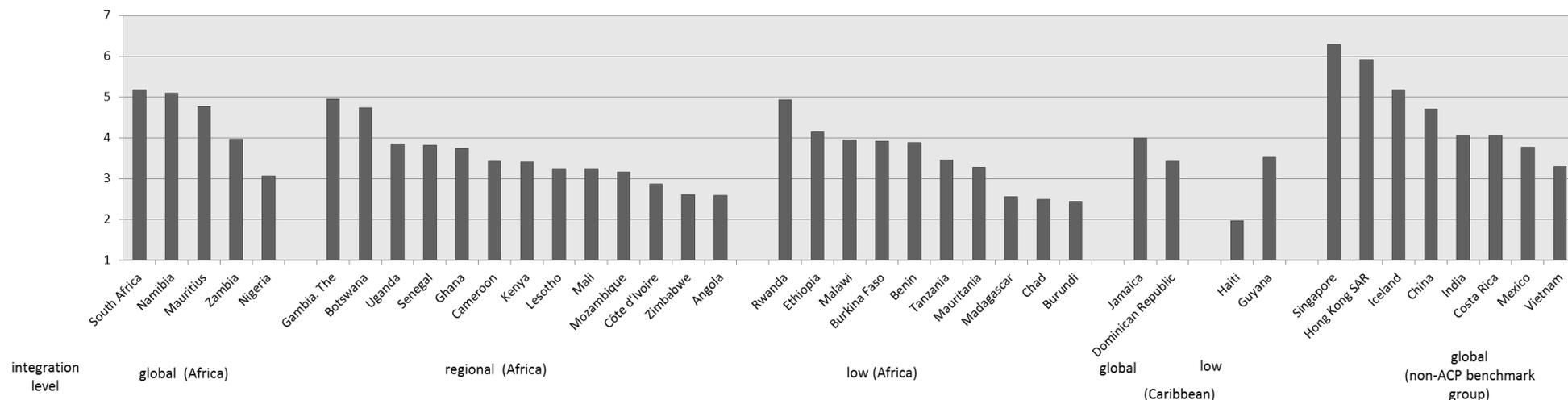


Source: Schwab and Sala-i-Martin, 2013.

Missing countries: Antigua and Barbuda, the Bahamas, Belize, Central African Republic, Comoros, DRC, Republic of the Congo, Cuba, Djibouti, Dominica, Equatorial Guinea, Eritrea, Fiji, Grenada, Guinea-Bissau, Guyana, Kiribati, Liberia, Niger, Sao Tome and Principe, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Somalia, Sudan, Togo, all Pacific countries except Timor-Leste

## Annex 13 Quality and granting of property rights in ACP countries based on the World Economic Forum's Global Competitiveness Index 2013

Note: Index scores vary between 1 (worst) and 7 (best).

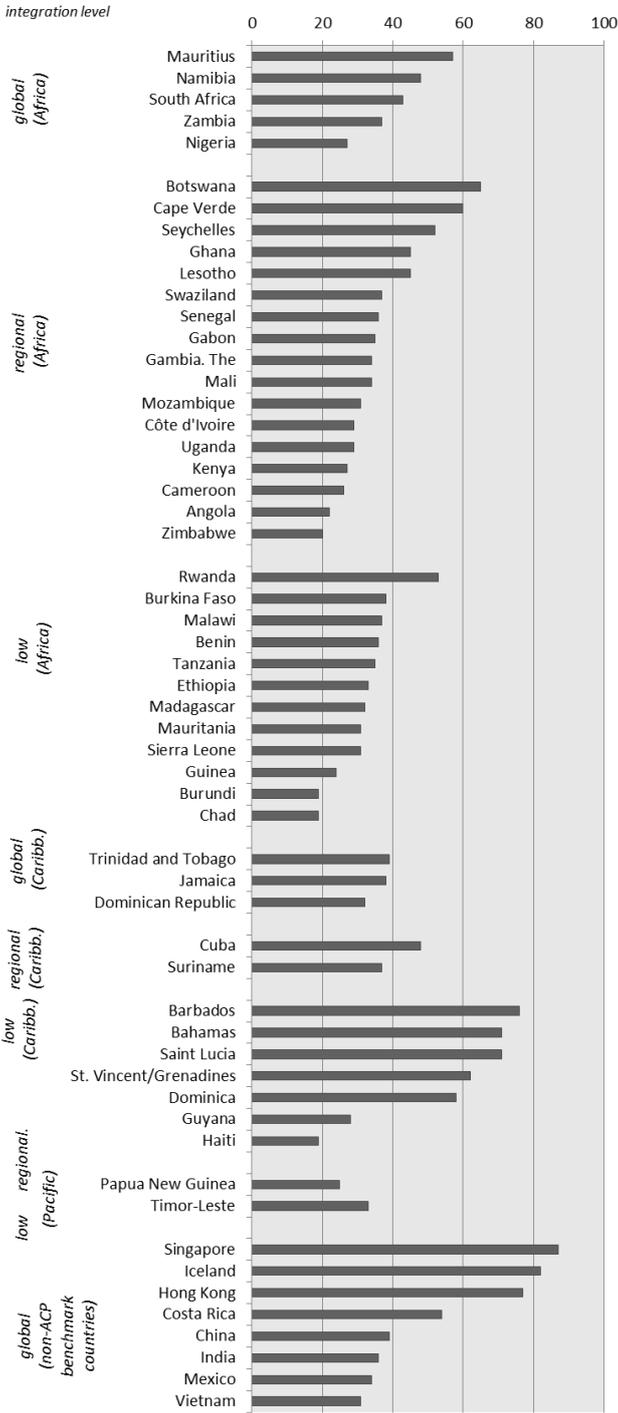


Source: Schwab and Sala-i-Martin, 2013.

Missing countries: Antigua and Barbuda, the Bahamas, Barbados, Belize, Central African Republic, Comoros, DRC, Republic of the Congo, Cuba, Djibouti, Dominica, Equatorial Guinea, Eritrea, Fiji, Grenada, Guinea-Bissau, Guyana, Kiribati, Liberia, Niger, Sao Tome and Principe, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Somalia, Sudan, Suriname, Togo, Trinidad and Tobago all Pacific countries

Annex 14 Corruption Perception Index 2012

Note: Indices vary between 0 (worst) and 100 (best)<sup>34</sup>.



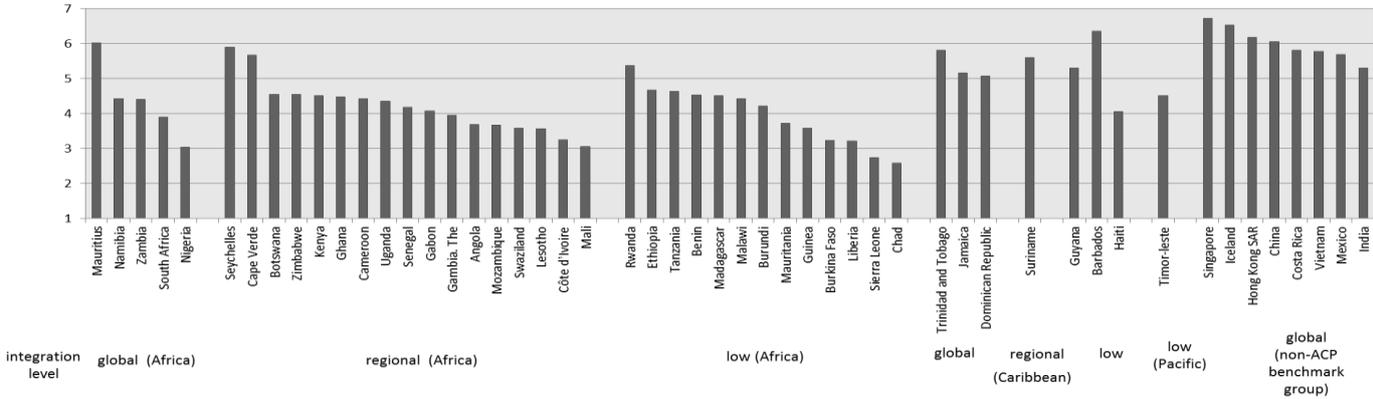
Source: Transparency International, 2012.

Missing countries: Pacific countries except Papua New Guinea and Timor-Leste

<sup>34</sup> Classifications of corruption levels according to the index are as follows: no corruption (100-81); low corruption (80-61), medium corruption (60-41), high corruption (40-21) and very high corruption (20-0).

Annex 15 Health status and quality of primary education in ACP countries based on the World Economic Forum’s Global Competitiveness Index 2013

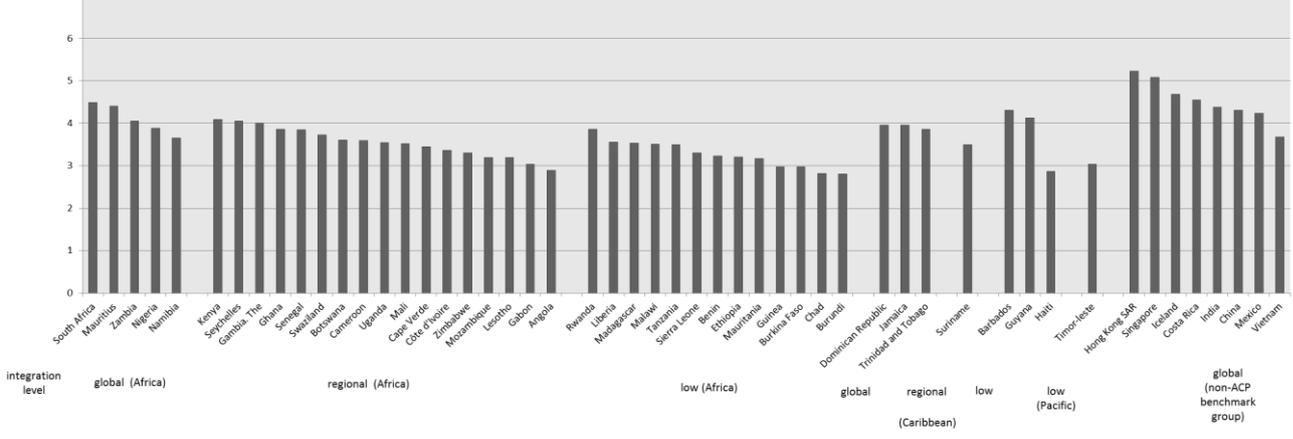
Note: Index scores vary between 1 (worst) and 7 (best).



Source: Schwab and Sala-i-Martin, 2013.

Annex 16 Degree of business sophistication in ACP countries based on the World Economic Forum’s Global Competitiveness Index 2013

Note: Index scores vary between 1 (worst) and 7 (best).

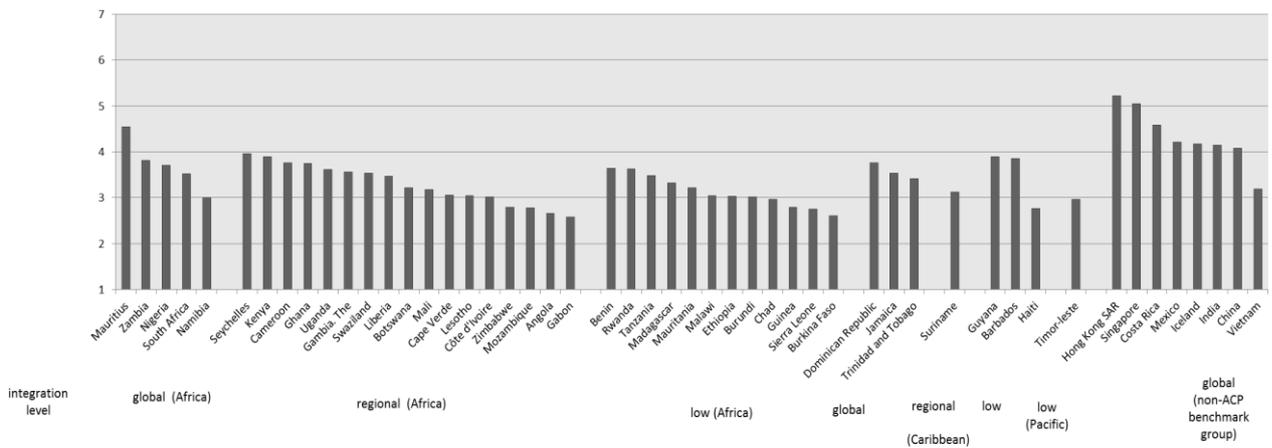


Source: Schwab and Sala-i-Martin, 2013.

Missing countries Annexes 14 and 15: Antigua and Barbuda, the Bahamas, Belize, Central African Republic, Comoros, DRC, Republic of the Congo, Cuba, Djibouti, Dominica, Equatorial Guinea, Eritrea, Fiji, Grenada, Guinea-Bissau, Guyana, Kiribati, Liberia, Niger, Sao Tome and Principe, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Somalia, Sudan, Togo, all Pacific countries except Timor-Leste

Annex 17 Extent of value chain breadth in ACP countries based on the World Economic Forum’s Global Competitiveness Index 2013

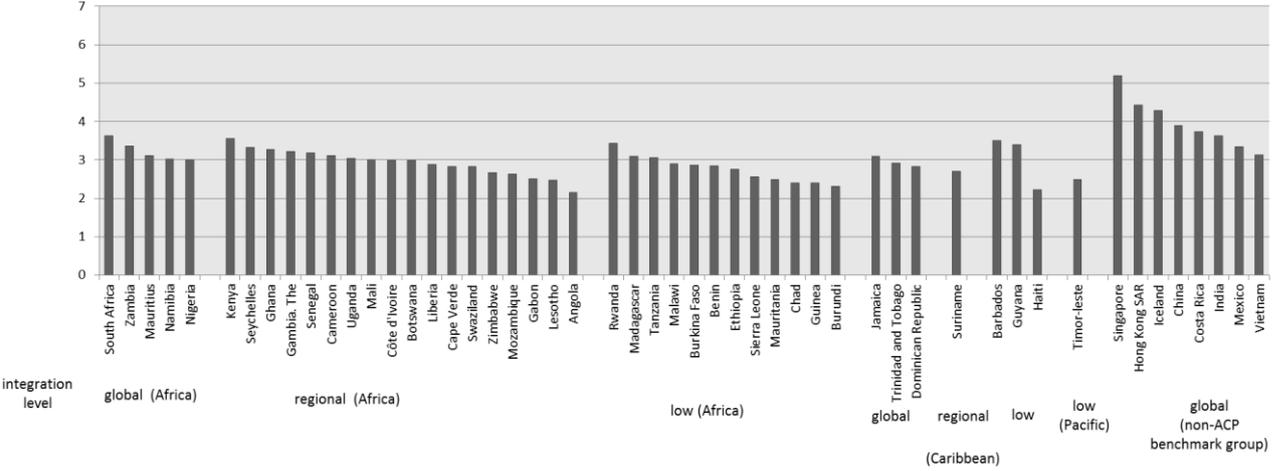
Note: Index scores vary between 1 (worst) and 7 (best).



Source: Schwab and Sala-i-Martin, 2013.

Annex 18 Extent of innovation capacity in ACP countries based on the World Economic Forum’s Global Competitiveness Index 2013

Note: Index scores vary between 1 (worst) and 7 (best).

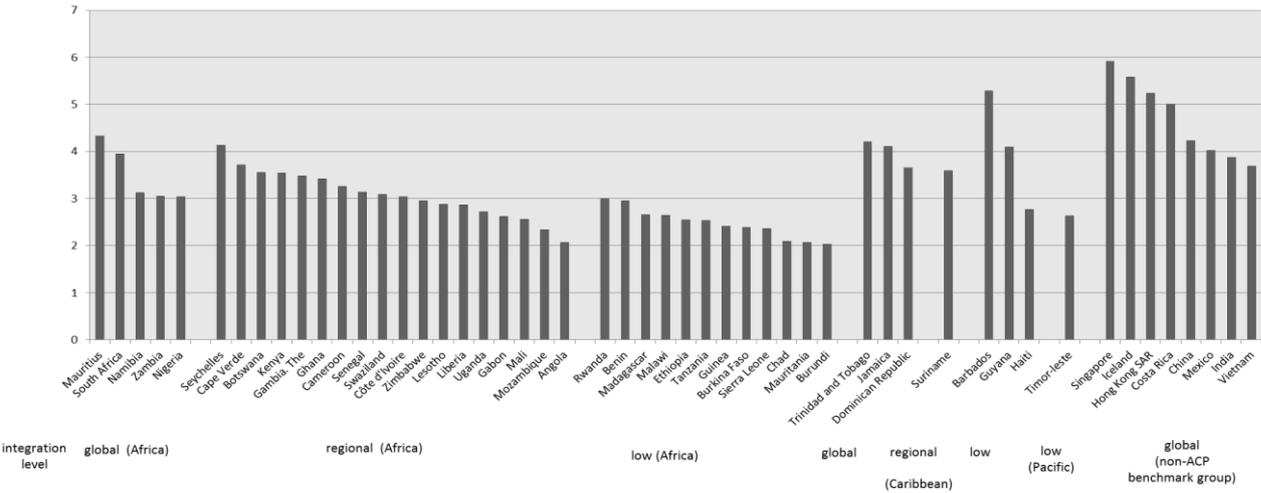


Source: Schwab and Sala-i-Martin, 2013.

Missing countries Annexes 16 and 17: Antigua and Barbuda, the Bahamas, Belize, Central African Republic, Comoros, DRC, Republic of the Congo, Cuba, Djibouti, Dominica, Equatorial Guinea, Eritrea, Fiji, Grenada, Guinea-Bissau, Guyana, Kiribati, Liberia, Niger, Sao Tome and Principe, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Somalia, Sudan, Togo, all Pacific countries except Timor-Leste

Annex 19 Quality of higher education in ACP countries based on the World Economic Forum’s Global Competitiveness Index 2013

Note: Index scores vary between 1 (worst) and 7 (best).



Source: Schwab and Sala-i-Martin, 2013.

Missing countries: Antigua and Barbuda, the Bahamas, Belize, Central African Republic, Comoros, DRC, Republic of the Congo, Cuba, Djibouti, Dominica, Equatorial Guinea, Eritrea, Fiji, Grenada, Guinea-Bissau, Guyana, Kiribati, Liberia, Niger, Sao Tome and Principe, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Somalia, Sudan, Togo, all Pacific countries except Timor-Leste

**Availability and quality of transport infrastructure** (GET sub-index): includes measures of airport density, transshipment connectivity, paved roads, and the quality of air transport infrastructure, railroad infrastructure, roads and port infrastructure.

**Availability and quality of transport infrastructure services** (GET sub-index): comprises inter alia liner shipping connectivity, ease and affordability of shipment, logistics competence, postal services efficiency and GATS commitments in the transport sector.

**Business sophistication** (GCI sub-index): contains inter alia local supplier quantity and quality, value chain breadth, control of international distribution, production process sophistication, extent of marketing and reliance on professional management.

**Corruption Perception Index** ranks the countries according to the perceived corruption in the public sector.

**Domestic and foreign market access** (GET sub-index): includes the tariff rate, non-tariff measures, complexity of tariffs (i.e. tariff dispersion, tariff peaks, specific tariffs, number of distinct tariffs) and the share of duty-free imports for domestic market access. As measures of foreign market access, it includes tariffs faced in destination markets and the margin of preference in destination markets.

**Ease of doing business index**: depicts the regulatory environment local firms face, by including measures of regulations for starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency.

**Electricity and telephony infrastructure** (sub-index of the Global Competitiveness Index' (GCI)): the indicator comprises quality of electricity supply, mobile telephone subscriptions and fixed telephone lines.

**Global Enabling Trade Index** (GET): is comprised of four measures: market access, border administration, transport and communication and business environment.

**Health and primary education** (GCI sub-index): the health indicator accounts for the incidence and business impact of malaria, tuberculosis and HIV, as well as for infant mortality and life expectancy. Primary education is measured by the quality and the enrollment rate.

**Higher education and training** (GCI sub-index): comprises quantity and quality of education (for secondary and tertiary education) and on-the-job training.

**Human Development Index** (HDI): measures a country's development by combining three dimensions: life expectancy, educational attainment and income.

**Innovation** (GCI sub-index): comprises inter alia capacity for innovation, quality of scientific research institutions, company spending on R&D, availability of scientists and engineers and intellectual property protection.

**Institutions** (GCI sub-index): takes account of public and private institutions. Public institutions comprise property rights, ethics and corruption, undue influence, government efficiency and security. Private institutions include corporate ethics and accountability.

**KOF Index of Globalization:** measures the economic, social and political dimension of globalization. The economic dimension takes account of actual flows in terms of trade and investment (FDI and portfolio) and of restrictions on international trade. The social dimension includes data on personal contact (e.g. telephone traffic, tourism), information flows (e.g. internet users, televisions) and cultural proximity (e.g. trade in books, number of Ikea). The political dimension comprises number of embassies in the country, membership in international organizations, participation in UN Security Council Missions and international treaties.

**Logistics Performance Index:** includes six components: the efficiency of the clearance process, the quality of trade and transport-related infrastructure, the ease of arranging competitively priced shipments, the competence and quality of logistics services and the ability to track and trace consignments

**Property rights** (GCI sub-index): sub-index of the institutions indicator, comprising property rights and intellectual property protection.

Sources: Arvis et al., 2012; Dreher, 2006; Lawrence et al., 2012; Schwab and Sala-i-Martin, 2013; Transparency International, 2012; United Nations Development Programme, 2013; World Bank, 2013a.