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The Potential of ACP Countries to Participate in Global and Regional Value Chains: A Mapping of Issues and Challenges

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ABBREVIATIONS AND ACRONYMS

ACP	African, Caribbean and Pacific
CAR	Central African Republic
DRC	Democratic Republic of the Congo
EU	European Union
FDI	foreign direct investment
FTA	free trade area
GCI	Global Competitiveness Index
GET	Global Enabling Trade Index
GVC	global value chain
KOF	Konjunkturforschungsstelle Zürich
LPI	Logistics Performance Index
MNC	multinational corporation
ODA	official development assistance
PTA	preferential trade arrangements
RVC	regional value chain
UNCTADStat	UN Conference on Trade and Development Statistics
WCPFC	Western and Central Pacific Fisheries Commission
WEF	World Economic Forum

CHAPTER 1

INTRODUCTION

International trade has changed dramatically since the 1980s. Due to enormous reductions in transportation and communications costs, as well as the worldwide liberalisation of trade in goods and – to a lesser extent – services, production processes have been fragmented while value chains have gone global. Some observers now speak of global production networks.[2]

The development of these global value chains (GVCs) has led to major structural changes in the world economy. The fragmentation of production processes has caused greater integration of world markets. Multinational companies are increasingly offshoring and outsourcing jobs and tasks. International competition no longer takes place between industries and businesses 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 companies.[3] Countries no longer specialise exclusively in goods and services, but more and more in tasks.[4]

These activities occur primarily among developed countries, but also among certain developing or emerging economies. African, Caribbean and Pacific (ACP) countries, the focus of this report, are only integrated in GVCs to a very limited extent. When one looks 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 the prevalence of small-scale producers and suppliers, mean that plugging into existing value chains co-ordinated by multinational corporations (MNCs) is difficult.

In order to assess the best strategies that can be used to integrate into world trade, this report first analyses the potential of ACP countries to integrate into GVCs. However, it is also necessary to look at the relevance of regional value chains (RVCs) as opposed to GVCs. As Mumuni states, ACP countries also try to address the challenges of integrating into world trade via South–South co-operation.[5] Integration at the regional level among less demanding partners may offer a viable stepping stone to subsequent integration into GVCs.

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

CHAPTER 2

GLOBAL VALUE CHAINS – IMPLICATIONS AND PRECONDITIONS

GENERAL REMARKS

International trade has changed significantly in recent decades. Whereas until the mid-20th century goods were mainly produced at 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 liberalisation as well as decreasing communication and transportation costs, this development has allowed businesses greater flexibility. Production processes today are sliced or fragmented, and take place in GVCs or global networks.

It is clear that structural change is taking place ever faster, and the challenges faced by individual workers, companies and political entities have accordingly grown. A new paradigm in trade theory implies 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 also at tasks. Put differently: instead of goods, tasks are traded.[6] This tendency opens up a lot of opportunities and challenges to companies and workers in both developed countries and the emerging world. Their competitive situation changes much quicker than it used to.

Cattaneo *et al*. describe four detailed paradigm changes due to the emergence of GVCs.[7] These changes can be used to identify the challenges ahead. They are particularly important from the perspective of developing and emerging economies that want to upgrade in GVCs. The four shifts are as follows.

- A change of the relevant strategic focus from countries to networks, GVCs or companies reflects the trend that specialisation intensifies and comparative advantages are ever more dynamic.
- A change in the economic framework from industries to tasks and functions implies that the relevant units of decision-making become smaller and that small units share production processes. Put differently, in the old Heckscher-Ohlin world, goods were produced in one country and traded across borders. This can be interpreted as the movement of factors (labour, human capital and capital) incorporated into 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 analysed.
- A change in 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.
- A change in relevant barriers and stimuli from public to private shows that trade policy moves from taxing goods and services at the border to a broader set of measures that are complicated and interdependent. Because of the fragmented production process,

granting effective protection is becoming 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 there has been an increase in trade in services, and foreign direct investment (FDI) flows have shifted from the secondary to the tertiary sector. Companies are increasingly outsourcing parts of their business functions. This includes 'business process outsourcing' and 'information technology-enabled services'. Services multinationals are also establishing services GVCs in their own right.[8] These developments offer great potential for the economic development of services-oriented developing and emerging economies.[9]

Another recent development in GVCs is the shift in the geographical location of production processes. Thus far, China has been the world's key player in international production fragmentation, which has comprised mainly the processing and assembling of manufactured goods.[10] However, with rising Chinese labour costs production is relocating, partly back to the US or to countries such as Vietnam, Cambodia and Mexico.[11] In theory, this relocation process and potential offers opportunities to the ACP countries.[12]

THE ROLE OF GVCS FOR THE ACP COUNTRIES

In the literature on the impact of GVCs on developing and emerging economies, there is a consensus that participation in these networks is crucial for securing enhanced access to markets and knowledge networks, as well as new opportunities for production capability formation by local suppliers.[13] 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.[14]

Looking at the preconditions for participating in GVCs, the ACP countries perform relatively poorly, facing geographical, institutional and infrastructural barriers to trade.[15] The need to tackle these barriers is especially relevant in light of the recent developments in 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.[16]

MNCs that disperse their supply chain into global production networks, the so-called 'global network flagships', are of particular importance here, since they set the standard for the complete value chain.[17] It seems more appropriate that the ACP countries aim at attracting second- and third-tier businesses. In the target country, these businesses choose local suppliers according to criteria such as reputation, quality and 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. They address a country's attractiveness to foreign companies and investments, and further ensure a business and trading environment that allows local suppliers to meet the aforementioned criteria of MNCs.

Here, the first category that should be analysed is general market access and a country's openness to FDI. In terms of market access, both domestic access (ie, tariffs applied) and foreign access (ie, tariffs faced) must be considered. Furthermore, with FDI being a main driver in the development of GVCs, openness to FDI is crucial.

Considering this, infrastructural services such as transportation and logistics, telecommunications, finance and insurance, and energy play a key role. Their quality and efficiency determine the business and trade environments, as well as company performance. These services function as enabling factors for a country's participation in GVCs, and thus their efficient provision and a reliable infrastructural network are indispensable.

However, infrastructure alone has proven to be insufficient to attract MNCs, as Bhatia makes clear.[18] The institutional framework of the target countries crucially influences the business and trade environment. This institutional framework comprises the existence of the rule of law, property rights, a proper health system, education and innovation policies, a transparent tax environment and 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 the offshoring and outsourcing decisions of MNCs.

ACP countries often lack the abovementioned elements. As Tables 12–14 in the Annexure show, they often do not have the requisite institutional quality. It may be an option for them to start with special economic zones, or offshore centres, to attract FDI and get to terms with institutional improvements. In these zones governments can more easily guarantee investors' rights than in the whole country. As Baldwin states, offshoring decisions – and thereby trading decisions – are now vitally influenced by the ability of the target country to ensure the protection of the offshoring companies' tangible and intangible assets.[19] Bhatia adds that companies also relocate production to their home countries if these factors are not present.[20]

Other factors influencing a country's trading environment, such as the efficiency of border processes, customs practices and domestic regulations, must also be considered. The resulting cost differentials are substantial, as a simple comparison of the costs of crossing borders conducted by the World Bank shows.[21] These costs consist of the financial burdens associated with moving containers, the time taken and number of documents needed to clear goods at customs, and the payment of bribes, which, apart from the financial burden, places foreign companies at risk 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 minimised if not eliminated.

Next, and in contrast to 20th century globalisation, the workforce is relevant. Whereas in the past, FDI in developing countries was driven by either trade barriers (tariff jumping) or cheap labour, today much more emphasis is placed on the education of workers. In particular when planning to plug in and/or 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 it will be perceived as attractive for FDI (will it be attractive for assembling apparel, or putting together TV sets, or assembling harnesses for automobiles; or will it be more suitable for cutting fabric or producing more sophisticated medical devices; or for establishing call centres or for shared-services centres?). From thereon, upgrading is the challenge.[22] The significance of upgrading is also pointed out by

Bernhardt, who concludes from looking at a sample of developing countries in the global apparel industry that economic upgrading seems conducive to social upgrading.[23]

Multinational companies are also the main standard setters in terms of ecological and social requirements, which is an issue of special concern to low-income countries. It is essential to meet these requirements to enter profitable markets since they determine market access, especially to high-income countries. However, this is a problem for especially small-scale producers and suppliers, which are prevalent in the majority of developing countries. For them, the 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.[24]

From the perspective of ACP countries, another aspect should be considered. It has been suggested that ethnic and/or cultural links between producers and customers may play a role.[25] By the same token, participating in GVCs may well be driven positively by ethnic links to other participants, and particularly lead companies in GVCs.

THE RELEVANCE OF RVCS

Some of the countries under consideration are very weakly integrated into the world economy (see the following section). Therefore, for them and their companies, approaching value chains at the regional level could be useful, since local producers who are not taking part in GVCs may be able to promote upgrading processes via regional co-operation. This may lead to internationally acceptable productivity and quality standards that allow for participation in GVCs in a subsequent step.[26] This potential is especially applicable to ACP countries with a large amount of small-scale producers.

However, in order to assess the relevance of GVCs and RVCs to the ACP countries, it is necessary to make a clear distinction between the two concepts. In principle, the logic is similar. Local companies and workers can only benefit from globalisation 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 in the inclusion of ACP countries in GVCs.

The general idea of regional integration is based on the (trade) theory of integration. The argument is simply that the reduction of barriers to regional trade enhances the division of labour between neighbouring countries. This promotes economic efficiency, or static gains, while the widened division of labour also promotes specialisation and therefore dynamic gains. 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 consider is that of growth poles, ie, areas or industries that show a particularly dynamic development and thereby create spillovers for other regions. For example, Ogunleyhe suggests that there are five growth poles in Africa (South Africa, Botswana, Kenya, Nigeria and Angola) that drive regional development.[27] To integrate them with their regions (Southern, East and West Africa) the rest of the continent seems key. In addition, the dynamic aspects of these poles are of crucial importance. Giersch shows that agglomeration enhances growth: in centres, spillovers occur due to the agglomeration of innovative entrepreneurial individuals who produce new knowledge, products and processes.[28] This enhanced growth also generates higher

income and new capital, which can be used to invest (and meet capital demand) in the periphery. This requires that the periphery be ready to make use of this capital inflow: according to Ogunleyhe the periphery comprises African nations neighbouring the growth poles.[29] It follows that economic gateways such as South Africa may well channel South African and third country capital into the periphery.[30]

Nevertheless, it is not clear how to initiate growth poles. Speakman and Koivisto claim that it is a political task to initiate 'simultaneous, coordinated investments in many sectors to support self-sustaining industrialization in a country'.[31] The aim is not to overcome market failure but to capitalise on and augment existing opportunities.[32] They show a few successful and ambitious examples in Africa, including three growth poles in Madagascar and a planned Nigerian electricity and gas investment project. The authors identify co-ordination, accountability and risk management as major problems, but they completely neglect two other 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, are the knowledge requirements for 'creating' growth poles. How can a government determine the correct investments for the future development and long-term growth of a country, region or city, in light of fast structural change and GVCs? The 'weaker' the government concerned, the greater the challenge. This problem has to be kept in mind when debating policy options.

A successful form of regional co-operation 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 advantage.[33] 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, which was re-launched in 2011.[34]

Another approach focuses on 'development corridors'. This concept aims at using existing roads and railroads to link mines and other investments in the area with regional markets and ports to enable the movement of food, goods, services and information.[35] In order to include as many factors of production as possible in the development corridor, it also has to be assessed whether official development assistance (ODA) can be used to support investments in remote areas to enhance the integration of these regions into RVCs. Collier argues that, beside weak governance, one reason for underdevelopment is remoteness.[36] As a consequence, ODA may be an instrument to connect remote regions with economic centres 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 harmonising '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 harmonisation issues, since these can take many years to resolve.[37] Such an approach is consistent with both GVC insertion and RVC development.

In sum, utilising the potential of regional integration can foster integration into GVCs. 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 worth considering. Different forms can be considered. They all require the principal 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.

CHAPTER 3

ACP COUNTRIES IN THE WORLD ECONOMY

This section will first outline basic structural facts to illustrate the heterogeneity of the countries of interest. Second, it will classify the ACP countries according to their current degree of global integration, which gives a notion of certain groupings of countries and serves as an indication of the countries' global or regional roles and the corresponding objectives worth striving for in relation to GVCs and RVCs. A distinction is made between global and regional economies, as well as the identification of countries with less intensive integration. Third, it will scrutinise the ACP countries 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; some of them are almost completely neglected. This data constraint is especially strong for the Pacific island states and some of the small Caribbean islands. The study therefore also deals with the situation of this group of small and partly remote islands.

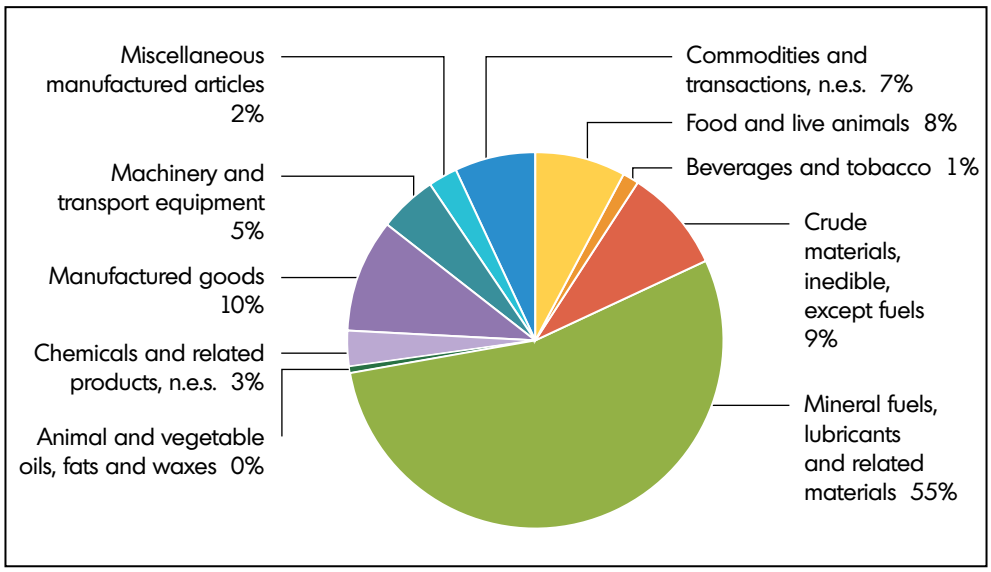
TRADE AND INVESTMENT PATTERNS

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.

Figure 1 illustrates the exported merchandise products of all the ACP countries as shares of total exports for 2012.[38] 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; and gas and electric current.[39] The remaining product groups account for far smaller shares in total ACP products: among them, manufactured goods (10%), crude materials (9%), food and live animals (8%) and commodities and transactions (7%) account for relatively higher shares of exports.

Figure 1: Merchandise exports of ACP countries characterised by product groups, expressed in shares of total exports for 2012



Source: UNCTADStat (UN Conference on Trade and Development Statistics), *Trade Structure by Partner, Product or Service-Category*. New York: UNCTADStat, 2013a

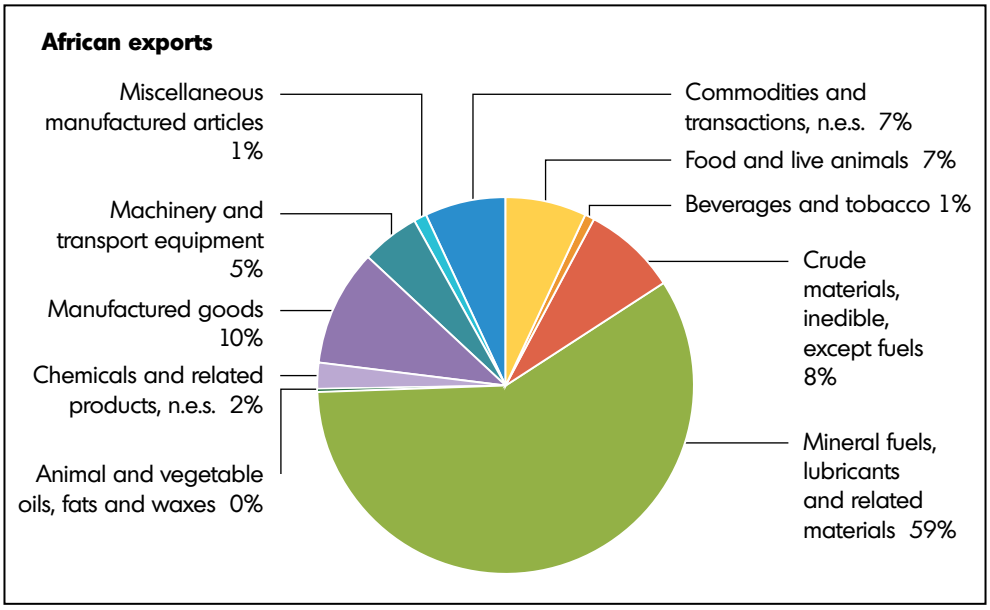
However, when looking at the ACP group members separately, differentiated according to region, the picture is more diversified.[40] Figure 2 illustrates the exported products as shares of total exports for 2012 for sub-Saharan Africa, the Caribbean and Pacific.

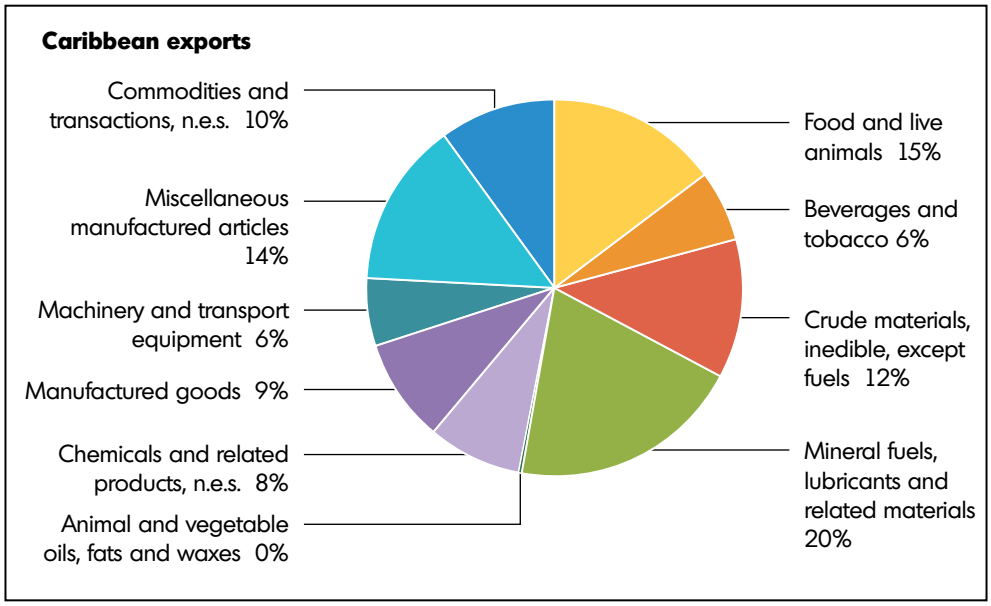
Sub-Saharan African exports are dominated by exports in mineral fuels, lubricants and related materials (59%). Exports of manufactured goods (products included are leather, cork and wood manufactures, paper, textile yarn, iron and steel or non-ferrous metals) and crude materials (eg, hides and skins, 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%), Congo-Brazzaville (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%), the Democratic Republic of the Congo (DRC) (9%) and Namibia (4%). South Africa is also the major exporter of crude materials, accounting for 38% of all exports. The remaining 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 in the export of these materials.

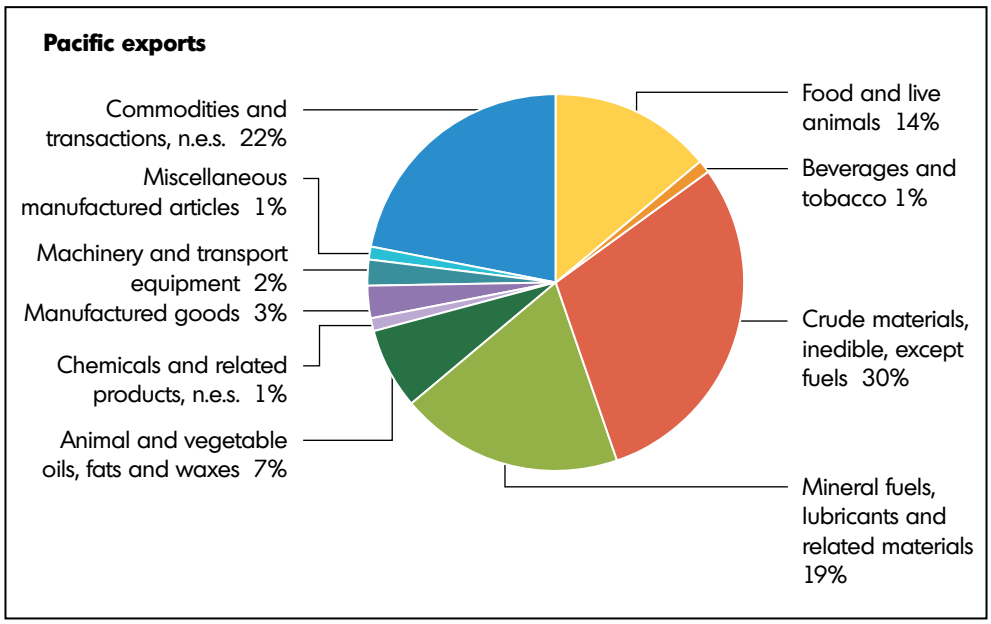
Export shares of the Caribbean countries show another picture, though, and are far more balanced than the sub-Saharan African case (see Figure 2). While mineral fuels still account for the largest share, it is much smaller (20%). Food and live animals (15%),

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 in the Caribbean. For mineral fuels (see Annex 2a), Trinidad and Tobago is the biggest exporting country, accounting for 57% of total exports, followed by the Bahamas (12%), Cuba (11%), Jamaica (7%) and the 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%). Cuba is the biggest exporting country of crude materials (39%), followed by Suriname and Jamaica with 19% each, the Dominican Republic (12%) and Guyana (7%) (see Annex 2c). Looking at 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 (3% each) and Trinidad and Tobago (1%).

Figure 2: Exports of sub-Saharan Africa, the Caribbean and Pacific in 2012, divided by product groups







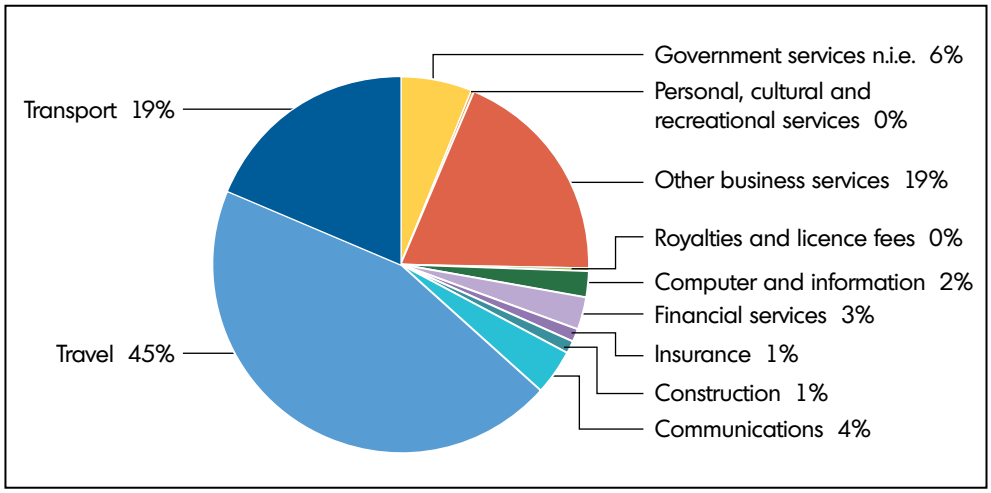
Source: UNCTADStat, *Trade Structure by Partner, Product or Service-Category*. New York: UNCTADStat, 2013a

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%). Annexes 3a–d depict the export shares of the five major exporting countries for the four biggest export products. When looking at Annexes 3a–d together it becomes evident that Papua New Guinea is the biggest exporting country for all four commodity groups (its 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).[41]

For food and live animals (see Annex 3a), Fiji is the second largest exporter with 34%, followed by the 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.[42] Figure 3 illustrates the export shares of the different services categories in the total services exports of the ACP countries in 2012.[43]

Figure 3: Services exports of ACP countries characterised by services groups, expressed in shares of total services exports for 2012



Source: UNCTADStat, *Trade Structure by Partner, Product or Service-Category*. New York: UNCTADStat, 2013a

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 with 19% each. The predominance of travel exports is 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 the highest services export shares for travel services (50% and 48% respectively). For the African countries, the second highest export shares are recorded by transport services (27%), followed by government services (government transactions and transactions of international organisations) (10%). For the Caribbean countries, other business services record the second highest shares (32%), followed by transport services (9%).

Foreign direct investment inflows

Annex 5 depicts inflows of FDI into the ACP countries, both in millions of $ (see Annex 5a) and as a share of GDP (see Annex 5b). The data is obtained from the UN Conference on Trade and Development Statistics (UNCTADStat) and illustrates FDI flows in net terms.[44]

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, the DRC, Ghana and Congo-Brazzaville. Among the Caribbean countries, the Dominican Republic and Trinidad and Tobago recorded relatively high inflows. All the Pacific countries are at the lower range of FDI recipients, with Fiji recording the highest FDI inflows within the Pacific group. Strikingly, Angola and Kiribati recorded negative values, which indicates disinvestment in 2012 (2010 and 2011 recorded positive FDI inflows, on the other hand). However, the picture changes when one considers 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-Brazzaville (22%). The Marshall Islands in the Pacific rank relatively high with 18.44%.

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 characterised by great heterogeneity. This is reflected in a number of basic structural facts, as evidenced in the brief trade and investment patterns set out previously.

Differences in developmental levels become evident when looking at the Human Development Index (HDI).[45] Two ACP countries are classified as very highly developed – the Caribbean country Barbados, and the Seychelles in Africa. Furthermore, the majority of the Caribbean countries (nine, see Annex 6) are classified as highly developed. In addition, one African (Mauritius) and one Pacific (Palau) country are classified in this category. When looking at the lesser-developed classifications, it becomes evident that the majority of African countries (37) are classified under low human development, whereas the majority of Pacific countries (six) are classified under medium human development (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, of which 29 are African, one Caribbean and two Pacific), 29 states are geographically islands. However, the 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.[46] It is evident that most of them generate the highest value 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 seven Pacific countries. Only two African countries show major value added in agriculture (>50% of GDP), whereas five African and one Caribbean country can be characterised as industry intensive. However, some of the countries record relatively high values in either agriculture and services or industry and services (see Annex 7).

DEGREES OF GLOBAL INTEGRATION – IDENTIFYING GLOBAL AND REGIONAL ECONOMIES

Cattaneo *et al*. 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.[47] In line with this characterisation, it is necessary 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 that 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 of 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 emerge for worthwhile objectives within the concept of GVCs and RVCs.

In order to classify the ACP countries according to their current degree of global integration, the Konjunkturforschungsstelle Zurich (KOF) index of globalisation is used.[48] The index is calculated on 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 an initial general distinction between the degrees of integration within the ACP, it is necessary to consider the overall KOF index, comprising all three dimensions. Annex 8 lists the ACP countries grouped according to this index.

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 globalisation 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 the standard. For regional powers, the regional median of the index serves as the standard. Countries below the regional median are classified as weakly integrated countries.

Accordingly, Annex 8 shows that the following countries can be classified as globally integrated: five African countries (Mauritius, Namibia, Zambia, South Africa and Nigeria), three Caribbean countries (Dominican Republic, Jamaica, and Trinidad and Tobago); and one Pacific island (Fiji). Moreover, 18 African countries are classified as regionally integrated, whereas three Caribbean and three Pacific states fall under this classification as well. This distinction between globally and regionally integrated countries, together with the remaining countries that are 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 within the ACP country group, and facilitates further sub-groupings according to problems and challenges faced.

In addition to the KOF index, the World Economic Forum's (WEF) Global Enabling Trade (GET) index is also used.[49] The sub-indices will be analysed 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 the 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 the problems and challenges of the ACP countries emerge. In relation to the discussion of the preconditions for accessing GVCs, aspects of basic

investment, business requirements and workforce qualifications are the focal points of interest for the weakly integrated countries (of which there is a relatively extensive number). 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.[50] 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.[51] Countries that are already either globally or regionally highly integrated face the challenges of remaining and upgrading within GVCs and RVCs. Therefore, the increased sophistication of business activities is crucial. Upgrading is facilitated through capacity building, innovation, workforce development, and higher education.[52] The next section will analyse the group of ACP countries with respect to these determining factors.

DETERMINANTS OF PARTICIPATION IN GVC/RVCS

The next step is to assess basic determining factors for a country's GVC/RVC participation. Results show that market access in general is not considerably restricted. However, when considering services, professional services are especially heavily restricted to foreign investments and movements of natural persons. Major constraints 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 the main problems for the majority of ACP countries. All ACP countries perform rather poorly for the indicators reflecting business sophistication capacities.

In order to set a general standard by which to assess the performance of the ACP countries, a set of eight non-ACP countries is introduced. These countries are chosen on the basis of their performance in trade in intermediates, and their participation in GVCs. The 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 six countries that ranked among the top 50 performers in trade of manufactured intermediate goods in 2006.[53] These include China (ranked 3rd), Mexico (15th), Vietnam (45th) and India (21st), which are coastal countries characterised by large populations. Two small island states are also included: Hong Kong (ranked 6th) and Singapore (11th). In addition to the manufactured intermediates trade, these countries also serve as a good standard for trade in services, especially India, which recently experienced rapid service-led growth.[54] One of the two remaining benchmark economies is the Central American state of Costa Rica, a coastal country characterised by a small population. It strongly embraced trade liberalisation 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.[55] The last country included is the European island Iceland, which records a relatively high share in GVC participation for the chemical industry and the minerals and electrical equipment industry.[56]

Basic trade-enabling requirements

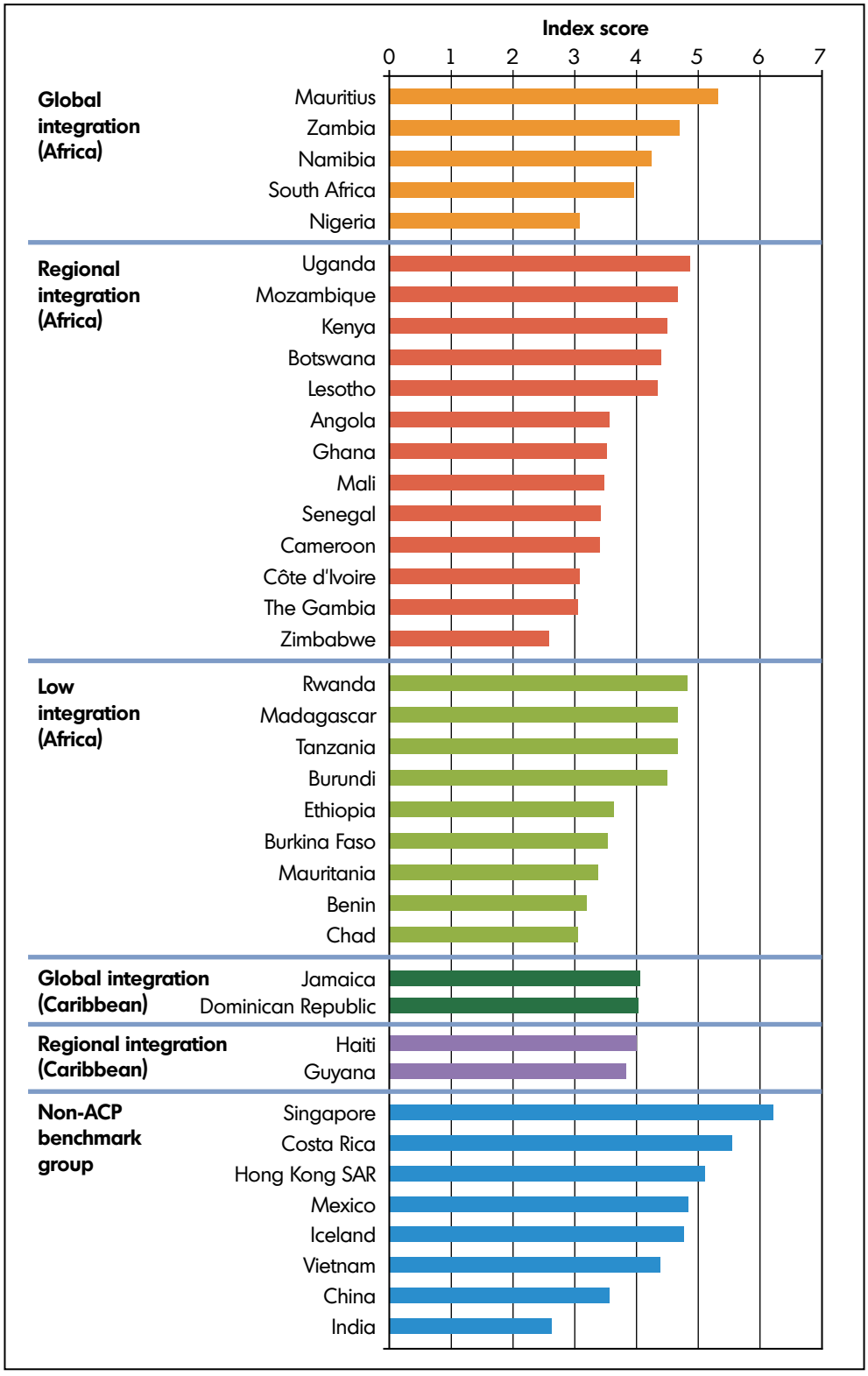
Market access

Having already conducted a general assessment of the trade-enabling environment, it is interesting to distinguish between the different components that influence the enabling trade environment and competitiveness, since it allows a differentiated view of existing bottlenecks and problems, and accordingly leads to separate conclusions. In order to have a general overview of the conditions for market access in ACP countries, the GET index subindex *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).[57] The ACP countries are grouped according to the integration cluster undertaken previously and are now further compared to the non-ACP standard group. Figure 4 shows that the group previously clustered as highly globally integrated does not record the highest market access indices throughout the countries 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.

Another important aspect of market access is trade in services. As outlined previously, services play a pivotal role in GVCs as key linking elements of the different fragments of production. Moreover, in terms of a country's attractiveness to MNCs they are crucial at two levels: first, the quality and efficiency of basic infrastructural services, such as transportation, telecommunications and financial services; and second, the quality and provision of more sophisticated professional services. These professional services 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 the efficient provision of services all the more important for countries striving for value chain participation.

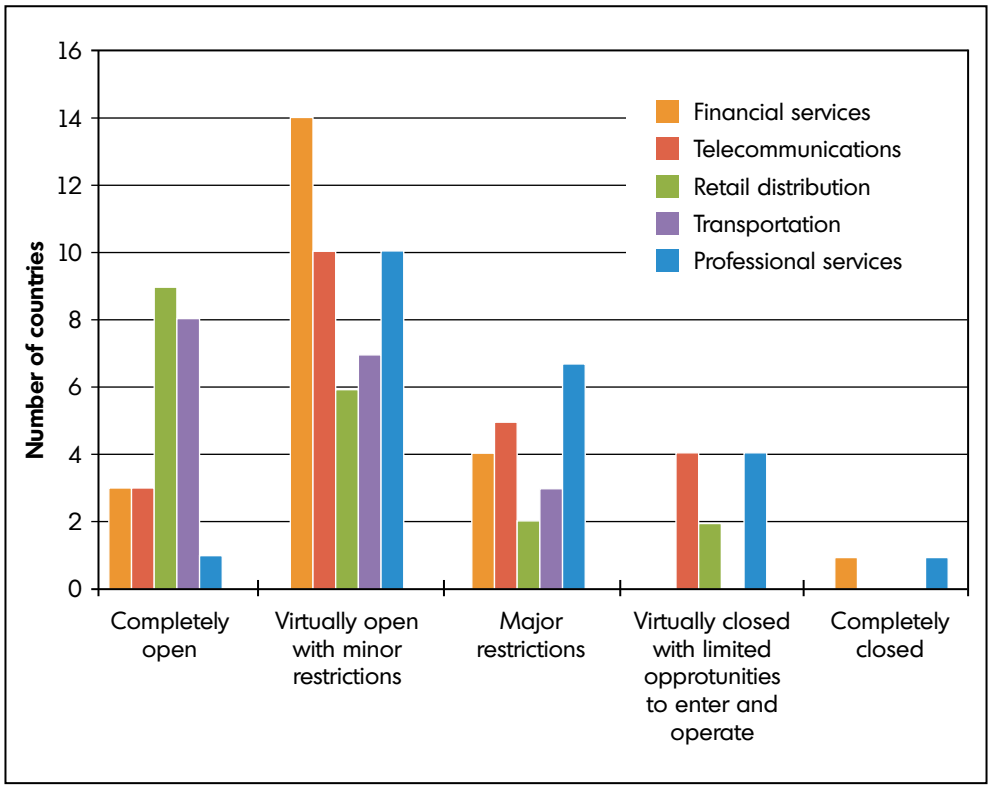
In light of the role of infrastructural and professional services, a country's openness to their provision becomes increasingly important. In order to shed more light on this issue, the World Bank's services restriction database is used to analyse the restrictions of ACP countries on foreign services 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 liberalisation emerges. Figure 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, however, since a number of countries are missing, which might yield the effect of a positive selection.[58] In addition, the devil is in the detail, which cannot be assessed on the basis of the data available. Nevertheless, some cautious reflections are justified.

Figure 4: Index scores for domestic and foreign market access of the ACP countries included in the GET index



Source: Lawrence RZ, Hanouz MC & S Doherty, *Reducing Supply Chain Barriers*, Global Enabling Trade Report 2012. Geneva: WEF, 2012

Figure 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 I, Gootiiz B & A Mattoo, 'Guide to the Services Trade Restrictions Database', World Bank Policy Research Working Paper, WPS6108. Washington, DC: World Bank, 2012

In order to compare these results with the non-ACP group of countries used as a standard of measurement, Annex 10 depicts the performance of the countries included in the dataset.[59] Strikingly, India records relatively high restrictions, especially for professional services. Whereas Costa Rica and Mexico are relatively open overall, and completely open to commercial presence in the retail services sector, Vietnam records major restrictions for this sector, as well as for telecommunications. Professional services are also highly restricted in China.

However, in order to get a more detailed picture, it is necessary to look at 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 telecommunications services being highly restricted. All countries in the highly globally integrated group impose their highest restrictions on professional services, implying high barriers to the

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 in both the other integration groups. Ethiopia constantly records the highest restrictions for all services sectors among the group of countries with minor integration.[60] 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.

Considering the obviously highly restricted professional services sector to foreign suppliers, it is interesting to look at another mode of restriction, namely the movements of natural persons (mode 4; data on mode 4 of trade in services is only available for professional services). Figure 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).[61] The country scores are very high for both ACP and non-ACP countries. The lowest scores are recorded in 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).

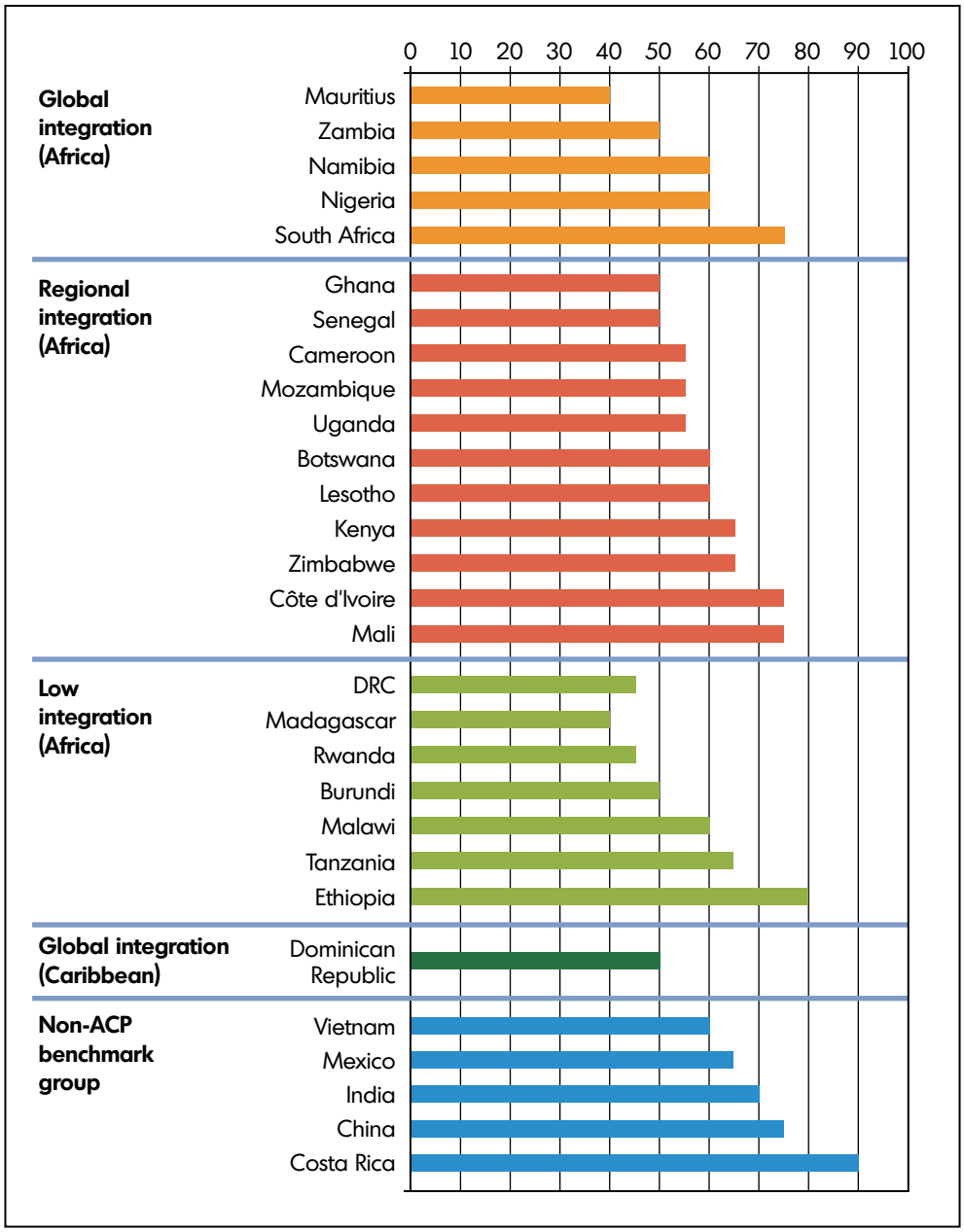
From the analysis above, no clear picture of differentiation on the basis of market access in services emerges. This result, while interesting, should not be interpreted as invalidating the literature referred to above. This is mostly because mainly developing countries have been compared to each other, but also because the data constraints are severe.[62] Moreover, as becomes evident in the next section, there are other, more binding constraints.

Logistics performance, and the availability and quality of infrastructure

Having considered aspects of general market access, the availability and quality of infrastructure are essential determinants 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, this section first considers the Logistics Performance Index (LPI) as a general reference for a country's logistics efficiency, before it analyses performance in the availability and quality of infrastructural services.

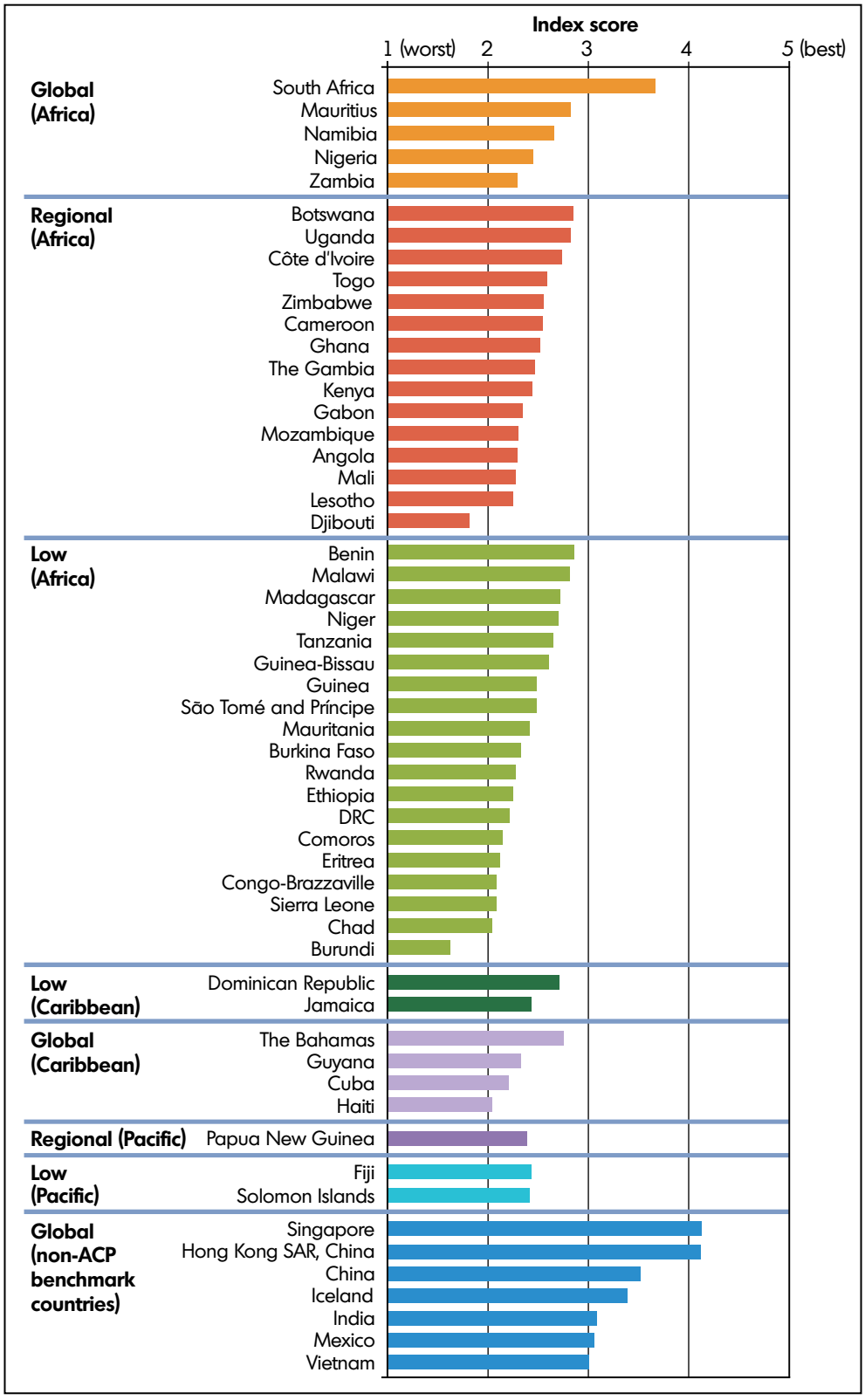
The LPI is based on a worldwide survey of logistic operators combined with data on the performance of the logistics supply chain of a country (see Annex 20 for a description). Looking at the 2012 LPI (see Figure 7), it is evident that the performance of both African and Caribbean countries depicted in the index is relatively similar, with South Africa being the lead performer with an LPI slightly above 3.5. The remaining countries record indices of 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, where the best performer is Hong Kong, with the others recording index values of between 3 and 4 (except for Costa Rica), all ACP countries perform considerably weakly (except for South Africa).

Figure 6: Restrictiveness to mode 4 of trade in professional services (movements of natural persons), based on the World Bank's services restrictiveness database



Source: Borchert I, Gootiiz B & A Mattoo, 'Guide to the Services Trade Restrictions Database', World Bank Policy Research Working Paper, WPS6108. Washington, DC: World Bank, 2012

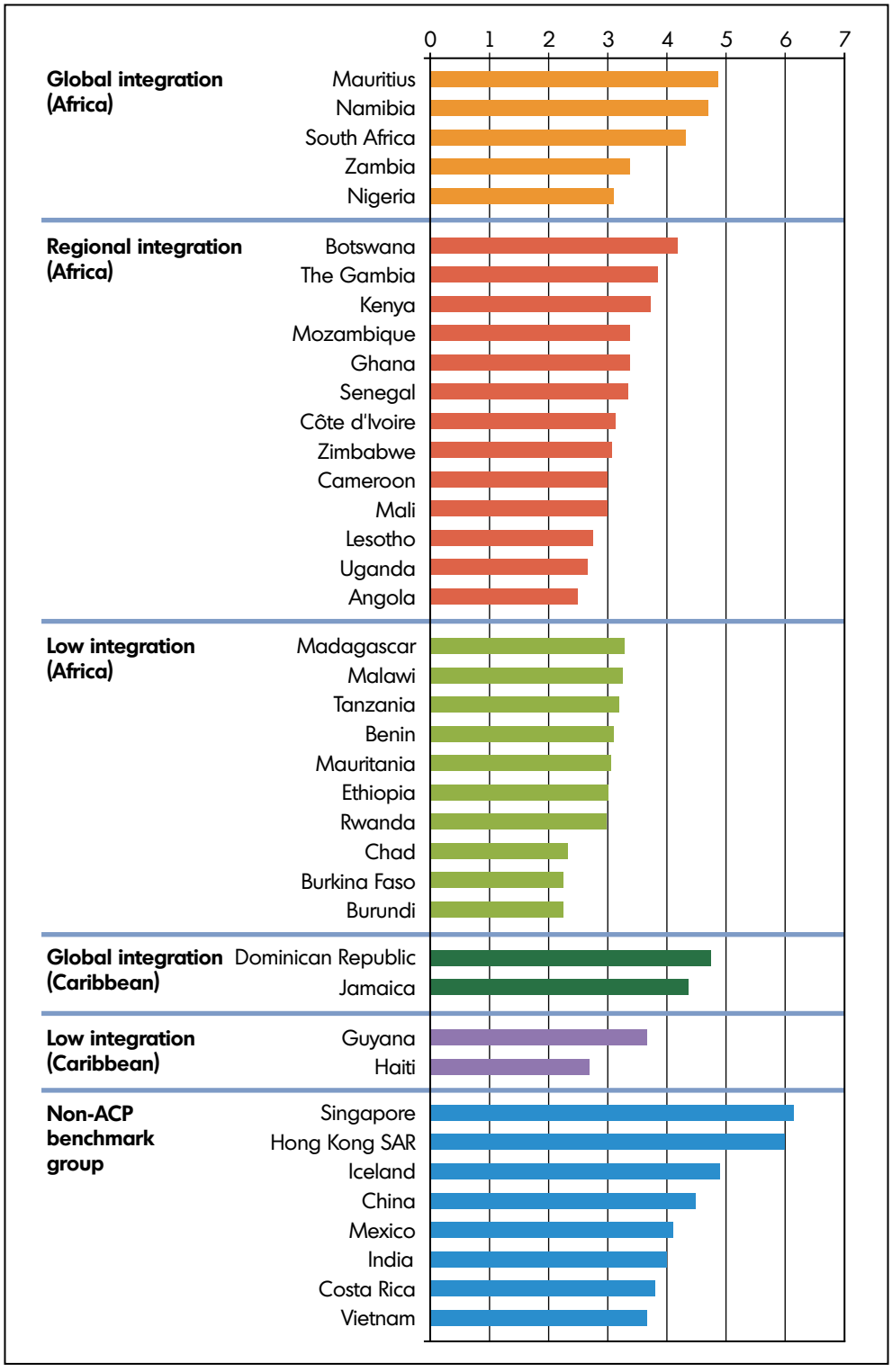
Figure 7: Performance of ACP countries along the logistics supply chain, based on the World Bank's LPI 2012



Source: Arvis JF *et al.*, 'Connecting to Compete 2012 Trade Logistics in the Global Economy – The Logistics Performance Index and Its Indicators'. Washington, DC: World Bank, 2012

When looking at the countries' infrastructural performances, differences in their records become clearer. Figures 8 and 9 illustrate both the availability and quality of transport infrastructure (Figure 8) and transport services (Figure 9), based on the WEF's GET index of 2013 (see Annex 20 for a description of the indices). 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 indices that are as large as those of the best African performers. However, the magnitude of the indices decreases remarkably when looking at the availability and quality of transport *services* (Figure 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, Jamaica and the Dominican Republic are again the best performers. Poor infrastructure, and not political barriers, can probably explain this relatively low performance in transport services. Most countries recorded relatively low restrictions in these services, according to the World Bank's services restriction database (compare Annex 11).

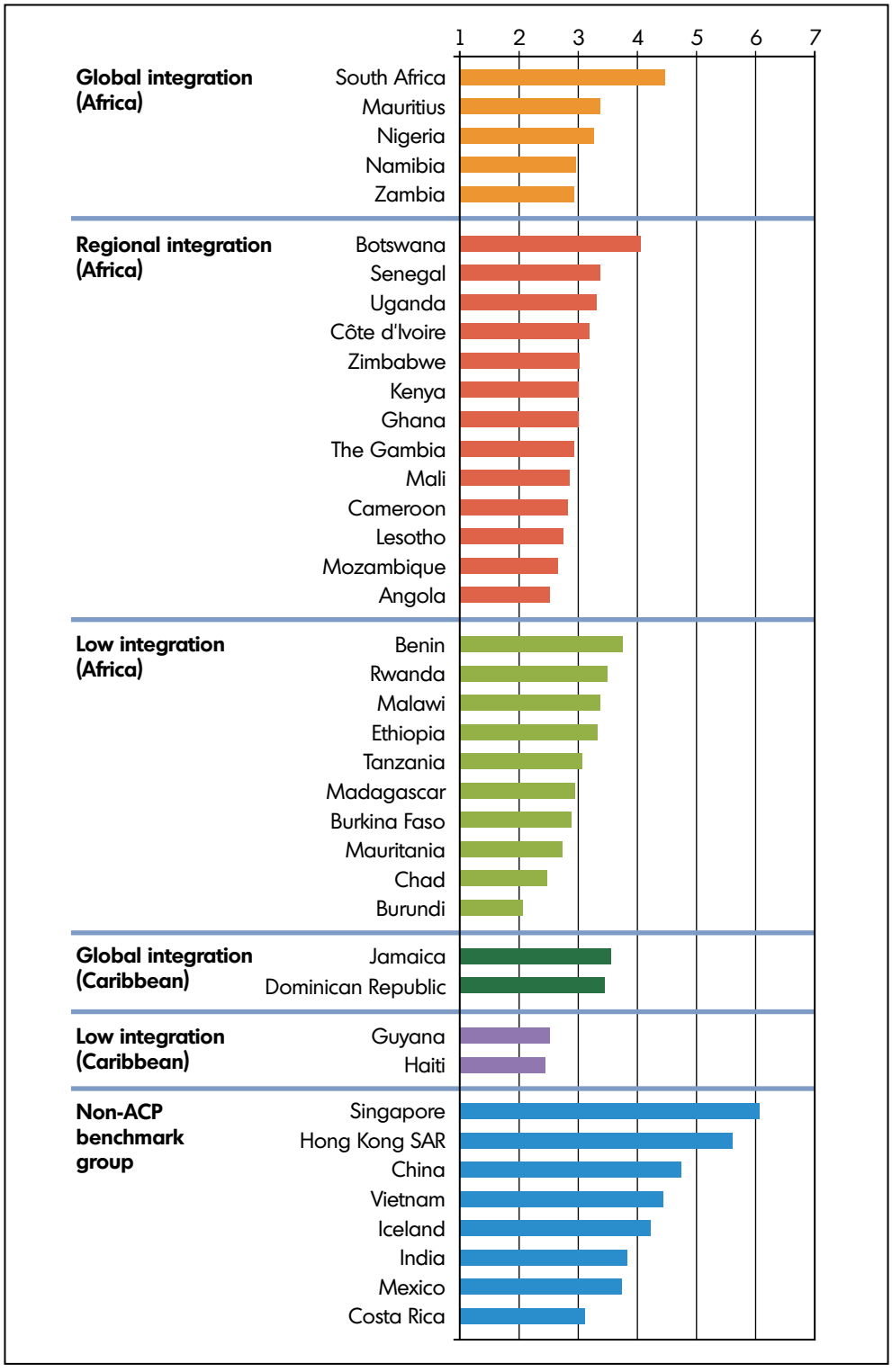
Figure 8: Availability and quality of transport infrastructure of ACP countries included in the WEF's GET index



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

Source: Lawrence RZ, Hanouz MC & S Doherty, *Reducing Supply Chain Barriers*, Global Enabling Trade Report 2012. Geneva: WEF, 2012

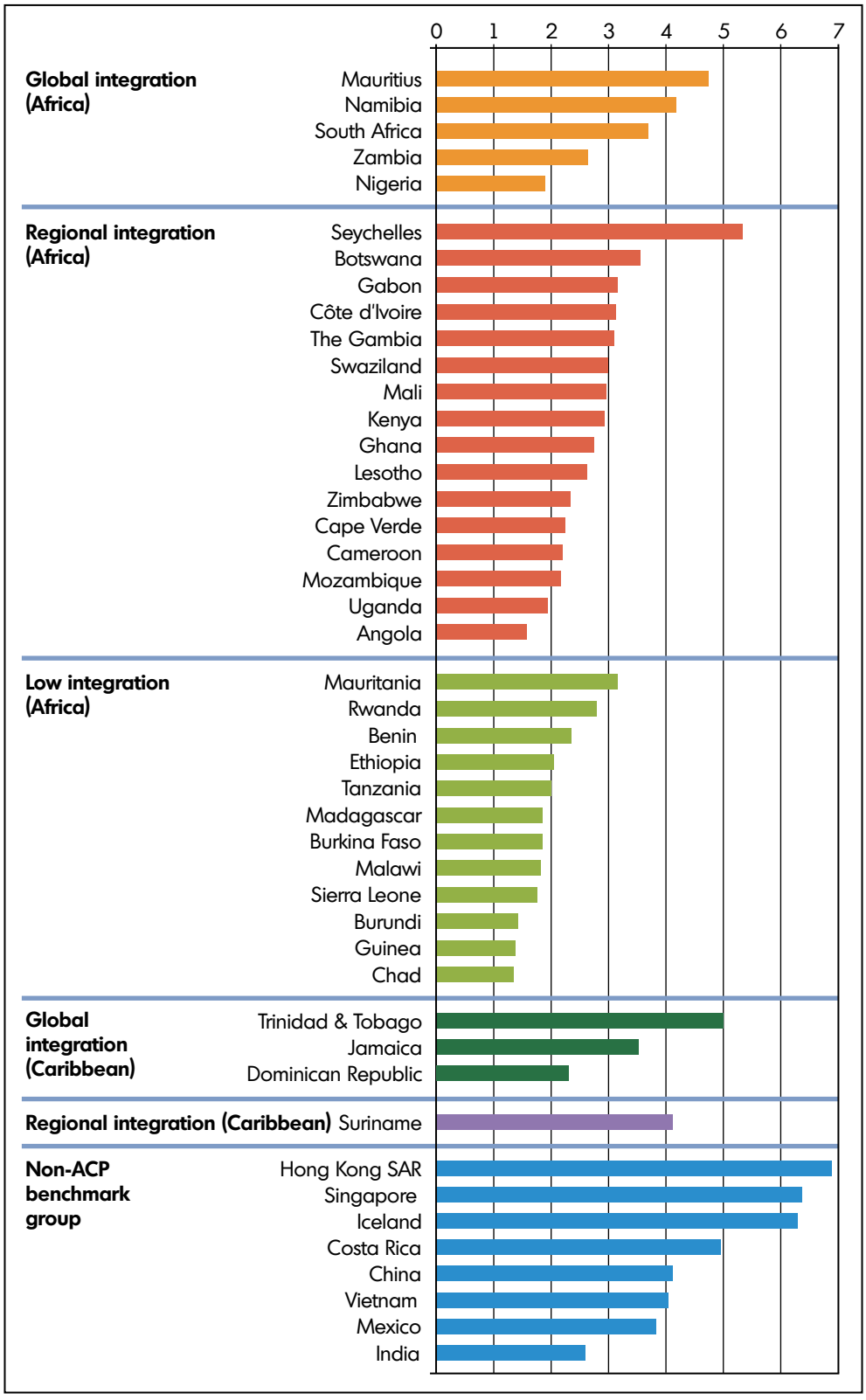
Figure 9: Availability and quality of transport services of ACP countries included in the WEF's GET index



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

Source: Lawrence RZ, Hanouz MC & S Doherty, *Reducing Supply Chain Barriers*, Global Enabling Trade Report 2012. Geneva: WEF, 2012

Figure 10: Quality of electricity and telephony in ACP countries, based on the GCI 2013



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

Source: Schwab K & X Sala-i-Martin, *The Global Competitiveness Report 2013–2014*. Geneva: WEF, 2013

When looking at the performances in electricity and telephony, based on data obtained from the WEF's Global Competitiveness Index (GCI) (Figure 10), it is striking that the Seychelles and Trinidad and Tobago are the best performers.[63] Mauritius, Namibia, South Africa and Botswana are again among the best performers among 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.

An 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 relatively high ranked on a consistent basis, indicating good infrastructure performances. Nigeria and Zambia record rather low values. Among the regionally integrated countries, Botswana is the best performer whereas the Seychelles ranks very well for electricity and telephony. However, the majority of the countries grouped as regional powers perform poorly. This is also the case with the low integrated countries. For the Caribbean states, the Dominican Republic and Jamaica as the two countries classified as globally integrated perform relatively well. In all cases, except the partial exceptions of Costa Rica and Vietnam, the ACP group performs worse.[64]

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. Therefore, this section considers the general institutional quality of the ACP countries and subsequently looks at two sub-indices – property rights and corruption – in detail.

Taking the WEF's GCI subindex *institutions* 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.[65] Remarkably, Rwanda, grouped among the 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* separately, which is extracted from the overall institutions index (see Annex 13; some countries are missing, however).[66] 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.

Taking the Corruption Perception Index by Transparency International as a further indicator of a country's business environment, the results are striking (see Annex 14).[67] Botswana is the only African country with a corruption level classified as low (score

slightly above 60). Mauritius, Namibia, South Africa, Cape Verde, the Seychelles, Ghana, Lesotho and Rwanda are classified as medium corruption, whereas the remaining countries are all highly or very highly corrupt. By contrast, 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 and Zambia, and regionally integrated Botswana. However, it is important to note that a similar differentiation emerges among the non-ACP group, with Singapore, Hong Kong (Special Administrative Region of the People's Republic of China) and Iceland consistently performing at the top of our standard of measurement 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 GVCs owing to their huge labour forces. All three, however, face substantial challenges in upgrading 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 GCI subindex of *health and primary education* is illustrated in Annex 15.[68]

Mauritius, the 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. 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, including for the ones that are 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.

Business sophistication

Having considered the basic requirements for general participation in GVCs, it is now necessary to look at factors influencing the probability of upgrading processes that lead to higher value-added production within existing value chains. These factors are of special relevance to regional powers and those countries that are already highly globally integrated. The quality of business networks and companies' operations within a country is a major determining factor for the degree of business sophistication. In addition, businesses' capacity to innovate is crucial for upgrading opportunities and processes. Furthermore, a major determining factor is additional workforce development in terms of higher skilled workers who 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.[69]

Business sophistication and value chain breadth

The WEF's GCI subindex of *business sophistication* is a first general indication of the countries' quality of business networks and companies' operations, as illustrated in Annex 16.[70] 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 subindex 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.[71] In the WEF's GCI subindex 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.[72] 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.[73] 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 the best-performing countries is based on a mix of strengths along both dimensions of connectedness, which slightly mitigates the indicator's significance.[74] 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 a greater or lesser extent this result may bode well for their upgrading chances.

Innovation capacity

When assessing the WEF's GCI subindex *innovation*, comprising for example the capacity 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).[75] 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 favourably.

Higher education

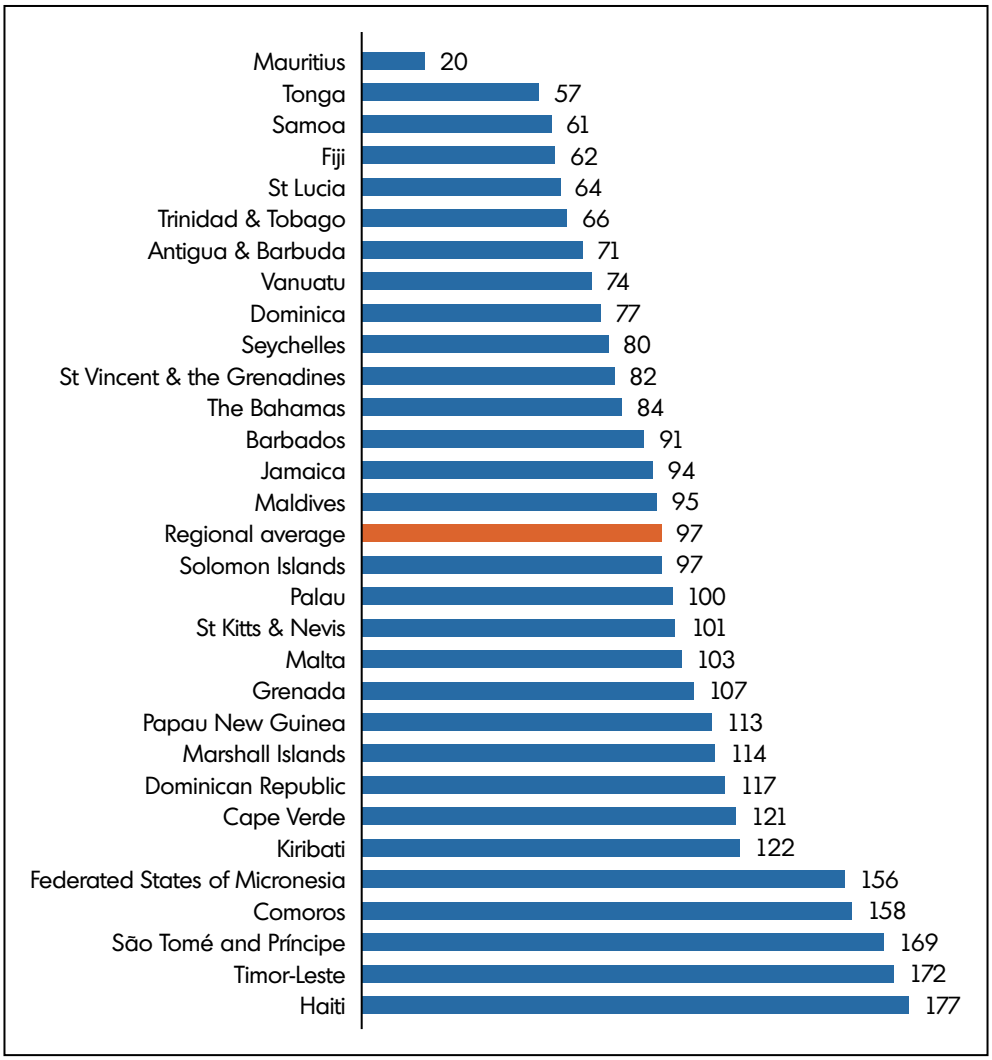
Another restriction for increased business sophistication becomes clearer when considering the subindex of *higher education and training* (see Annex 19).[76] Again, all African countries record relatively low values, with Mauritius, South Africa and the Seychelles still the highest-ranked countries. 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. The comparator countries, including Vietnam to some extent, perform notably better on this index.

THE CASE OF SMALL AND REMOTE ISLANDS

The indices analysed in the next-to-last section 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 characterised by their remote location. This is by nature detrimental to integration into GVCs, since it raises transportation costs relative to the value of goods and services.

The World Bank's *Doing Business Report 2014* outlines the extent of regulation that domestic small and medium-sized businesses are facing; accordingly this data is next analysed with respect to the island states not covered in the section on degrees of global integration.[77] Figure 11 shows the country rankings according to the *ease of doing business* index.[78]

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

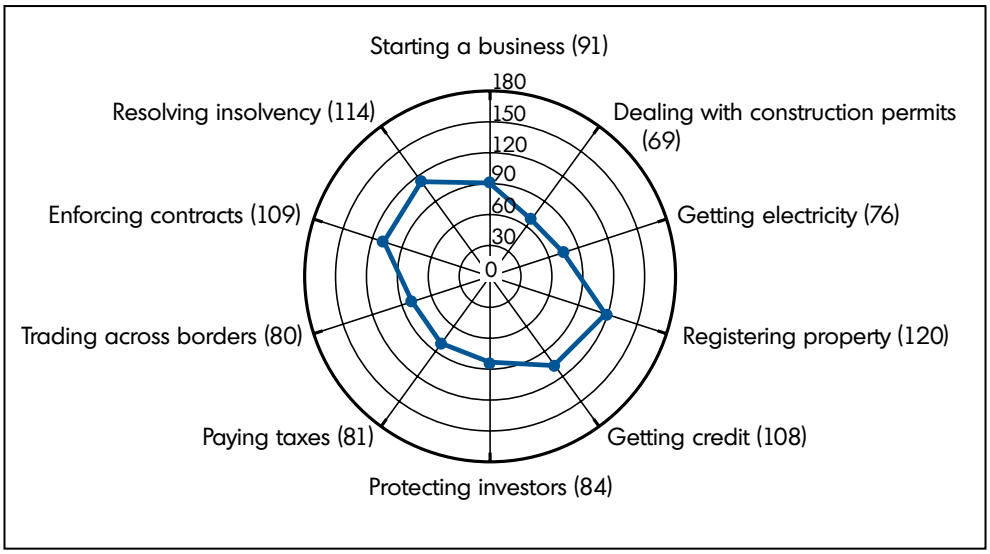


World Bank, *Understanding Regulations for Small and Medium-Sized Enterprises, the Doing Business Report 2014*, 11th edition. Washington, DC: World Bank, 2013a

Mauritius is by far the island with the best business environment for small and medium-sized enterprises. By contrast, the African island states Comoros, and São Tomé and Príncipe, are ranked very low. Among the Pacific island states, Tonga, Samoa and Fiji perform best, whereas Kiribati, Micronesia and Timor-Leste record low values, indicating business-unfriendly environments. The lowest value is recorded by the Caribbean state Haiti, while St Lucia, Trinidad and Tobago, and Antigua and Barbuda are the best performers among the Caribbean states.[79]

Figure 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 for the different topics are constantly relatively low. Still, the subindices 'dealing with construction permits' and 'getting electricity' are ranked highest on average, while 'registering property' and 'resolving insolvency' rank lowest.

Figure 12: Average small island states' rankings for the subindices included in the ease of doing business index



Source: World Bank, *Understanding Regulations for Small and Medium-Sized Enterprises, the Doing Business Report 2014*, 11th edition. Washington, DC: World Bank, 2013a

The fishery sector in the Pacific Islands provides an interesting example of the problems the small and remote islands face, as it comprises environmental, geographic, economic, organisational and political aspects of development. The first problem is overfishing. Since tuna is in high demand in the developed world, fishery fleets from the US, the European Union (EU), China and Japan catch tuna in large quantities. Recently, the Western and Central Pacific Fisheries Commission (WCPFC) agreed on a 10% reduction in the bigeye tuna catch, with China pledging to reduce its catch by 25%.[80] However, this news was contradicted by the Chinese announcement at the same WCPFC meeting in December 2013 that it was to launch some 140 new efficient fishing vessels.[81] In addition, the Pacific islands do not benefit sufficiently in economic terms. Thus far, of the total tuna

value added of an estimated $7 billion, the Pacific share has been around $1.5 billion. In particular, domestic processing activities are very low. Therefore, the Pacific islands plan to increase the licence fees for developed countries' vessels and to invest in their own processing factories. However, two problems impede these efforts. First, the Pacific islands are not acting jointly. Kiribati has just signed a special agreement with the EU allowing EU vessels preferential access to its 200 nautical mile exclusive economic zone. Second, the costs of producing processed tuna (ie, moving up the value chain) are higher in the Pacific islands than in Thailand, for example. Nevertheless, there are positive developments, such as a factory on the Solomon Islands employing 1 500 locals and exporting widely.[82]

IDENTIFICATION OF GENERAL PROBLEMS AND CHALLENGES

Using the previous assessment of different indices addressing basic trade-enabling requirements and aspects for business sophistication, it is possible to identify groups of countries facing similar problems and challenges.

Among the African countries that have been classified as globally integrated based on the KOF index, Mauritius, Namibia and South Africa have 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 improving business sophistication and innovation capacities. Furthermore, fostering higher workforce development and removing restrictions on foreign professional services providers are additional challenges to be confronted in order to enhance upgrading capacities. Among the group of globally integrated countries, Nigeria is a 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. It comes off rather badly in the business and trade environment, with a relatively poor performance in terms of infrastructure and institutional settings. Presumably, Nigeria could reach improved sophistication and innovation capacities if its significant trade and investment performance were embedded in an enhanced institutional, business and trading environment.

The problem of business sophistication and increased innovation capacities also exists in all the countries initially classified as regional powers. However, distinctions between the countries have to be made. Botswana is constantly among the best performers in all the indices, with a remarkably sound institutional setting. Countries that are constantly ranked among the lowest performers include Angola, Mali, Lesotho and Cameroon. For these countries, the fulfilment 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. Among these countries are Mozambique, Uganda and Kenya.

Of the low integrated countries, Rwanda is the most striking. While it has 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 show a rather less developed business and trading environment. The need to strengthen institutional settings and expand infrastructure is especially pressing in these cases. Still, divergences among

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.

Good institutional frameworks and high rankings in health and primary education are notable for the Caribbean states in the dataset. 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 all, except Mauritius, face major challenges. This poor performance is especially high for Haiti, Timor-Leste and São 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.

CHAPTER 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. As a result it is neither possible nor desirable to give detailed policy proposals for the group as a whole. Given its general scope, this report also refrains from detailed proposals for single countries. Nevertheless, some warnings are warranted and certain measures seem inevitable.

All measures to enhance integration into GVCs depend heavily 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 this respect, but more can be done. The struggle for better institutions is a permanent one.

Next, and as agreed by many observers, it must be stressed 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 liberalisation 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 meet the requirements of GVCs, which implies a solid knowledge and skill base (stocks) and – more importantly – the ability to adjust to new challenges (flows).[83] Education thus plays a decisive role, and it is not enough to provide basic schooling. To attract MNCs, regardless of their size and importance, to a country, it is important that education in general skills – eg, language and managerial skills, and vocational training for those who do not attend universities – is offered. The governments of ACP countries should invest more in these skills and search for tools for lifelong learning that enable workers at 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 the import 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 these skills are local 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 from the analysis as a major constraint, it is the authors' opinion that governments should minimise political barriers to trade. This includes tariffs, subsidies and other non-tariff barriers. Their dismantling is crucial to domestic productivity. The empirical trade literature has shown that import competition

increases productivity growth. In addition, trade liberalisation, particularly of intermediate and capital goods imports, reduces transaction costs and potentially transit times, which are important 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 World Trade Organization's Bali agreement in 2013, and presumably ODA could be leveraged to support it. In order to support trade liberalisation 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 signalling role. 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 report, is indicative of the basic mutual challenges each integration group faces. Striving for upgrading opportunities, the basic challenge of the highly integrated ACP countries is increased business sophistication and innovation capacities. For 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 Ogunleyhe.[84]

The ACP governments should engage even more in South–South trade. For this purpose, setting up special economic zones may be a good instrument, as they could attract those businesses that initiate growth poles. The regional dimension is even more important when taking into account the group of regionally integrated countries, among which Botswana, Kenya and Angola are notable as further African growth poles. For this group, the on-going expansion and improvement of basic infrastructural and institutional requirements are necessary to ensure the appropriate business environment for concurrent sophistication measures. However, the group of weakly integrated countries mostly faces basic challenges of infrastructure development and improvement of institutional settings. These are necessary to facilitate value chain participation and 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, a substantial warning is warranted. As seen in Speakman and Koivisto, there is still a deep faith in the ability of governments to invest properly in future profitable investment.[85] This faith may not be justified by past experience: governments everywhere regularly select losers and misspend investment funds. One reason for this 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 and 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. It is a complex and daunting task for institutionally challenged states to set their horizontal agenda correctly.

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.[86] 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 recall 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.[87] They may be more compatible with building RVCs than GVCs, by seeking to replace imports by means of 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 among themselves. This highlights the need for regional co-ordination, but such calls have been observed in the breach in Africa and elsewhere. Hence, if pursued outside the context of horizontal measures, they are likely to generate regional frictions, particularly since there are already dominant economies in all ACP sub-regions that would probably capture most of the (visible) static gains.[88] A final point is that building RVCs in this way would not be conducive to long-term competitiveness and therefore sustainability.

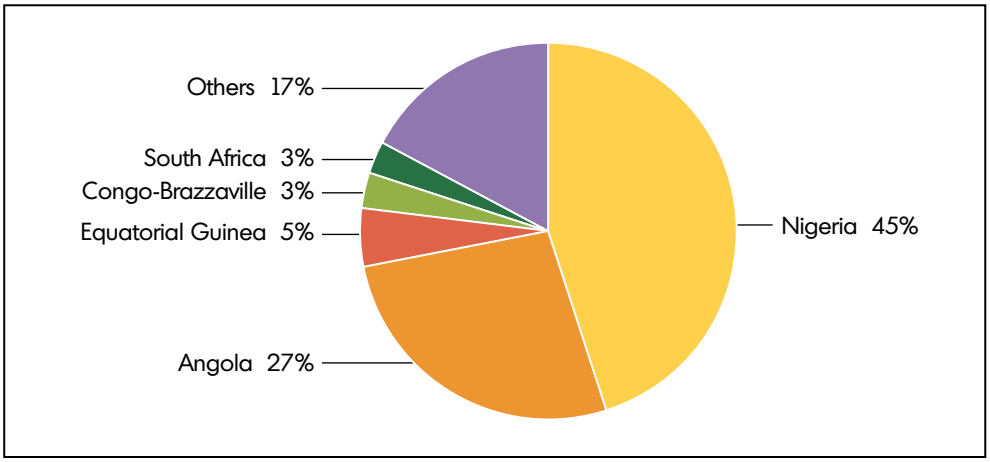
Having said that, there is clearly space for governments to pursue MNC FDI using smarter measures. Properly resourced investment-promotion agencies come to mind. These need to be sufficiently resourced, politically autonomous, and have access to the highest decision makers in the country. Then these 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. However, if the institutional and infrastructural environment is lacking, 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 maximising 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 businesses, are based on sound business cases. That requires strong, capable and smart institutions to develop them, which in turn demands sufficient revenues to establish such institutions, bringing the circle back to wise resource management in the interest of the whole society.[89]

The upshot is that development can be supported and nudged along but not steered without central planning. By improving the investment climate and strengthening the resilience of domestic businesses 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.

ANNEXES

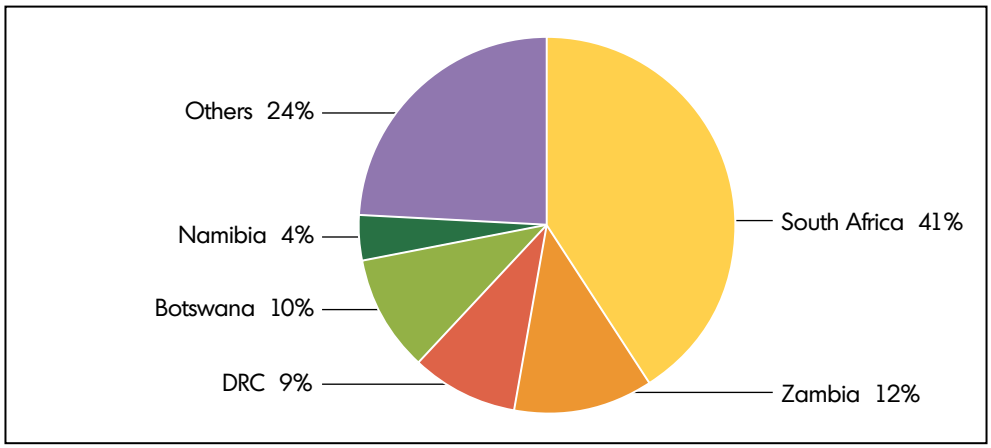
ANNEX 1: EXPORT SHARES OF THE FIVE MAJOR EXPORT COUNTRIES IN SUB-SAHARAN AFRICA FOR 2012, DIVIDED BY MAJOR EXPORT PRODUCTS

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



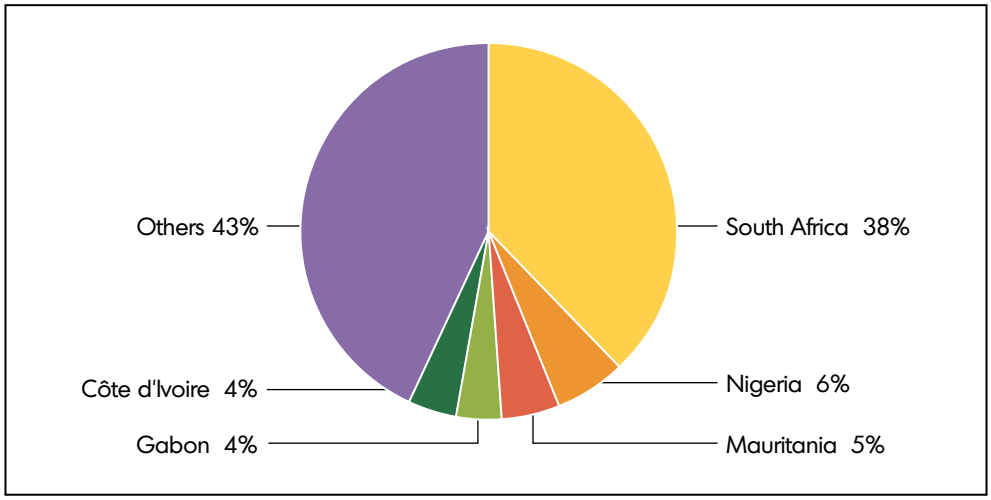
Source: UNCTADStat, *Trade Structure by Partner, Product or Service-Category*. New York: UNCTADStat, 2013a

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



Source: UNCTADStat, *Trade Structure by Partner, Product or Service-Category*. New York: UNCTADStat, 2013a

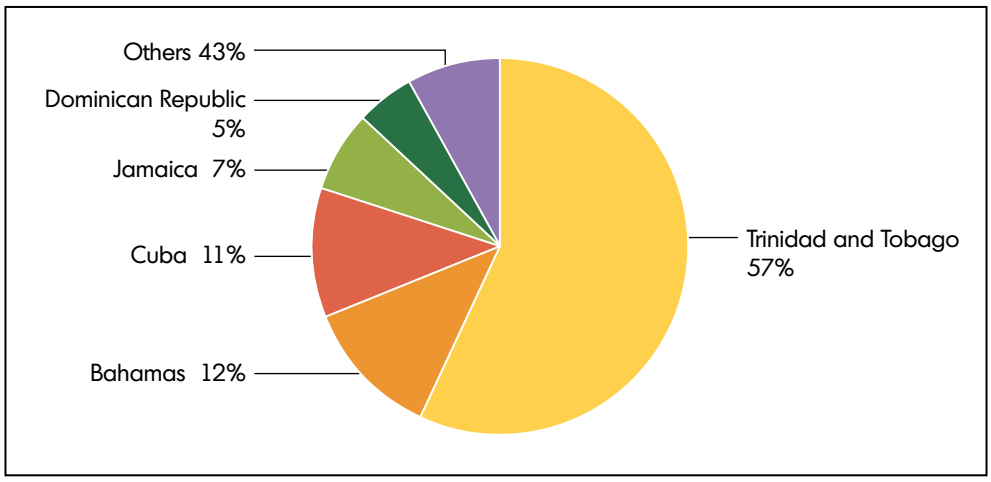
Annex 1c: Export shares of the five biggest export countries of crude materials (inedible, except fuels) in sub-Saharan Africa



Source: UNCTADStat, *Trade Structure by Partner, Product or Service-Category*. New York: UNCTADStat, 2013a

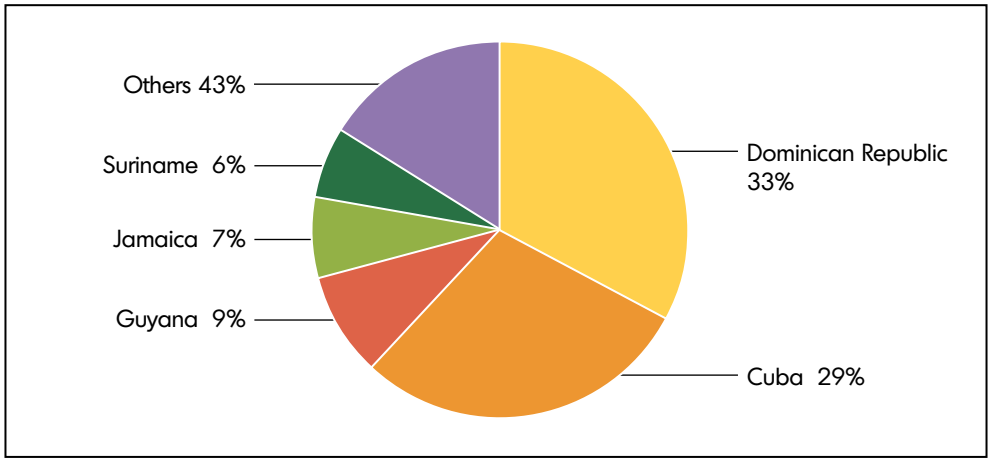
ANNEX 2: EXPORT SHARE OF THE FIVE MAJOR EXPORT COUNTRIES IN THE CARIBBEAN FOR 2012, DIVIDED BY MAJOR EXPORT PRODUCTS

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



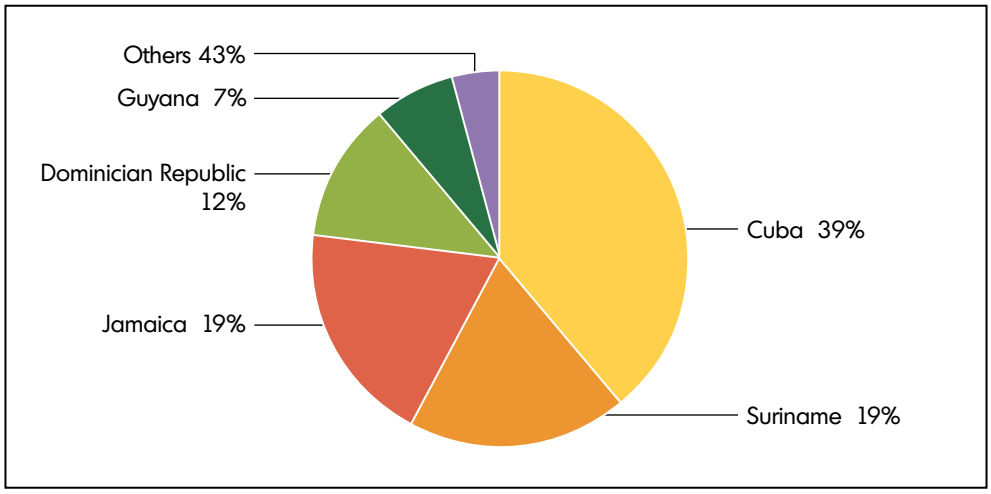
Source: UNCTADStat, *Trade Structure by Partner, Product or Service-Category*. New York: UNCTADStat, 2013a

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



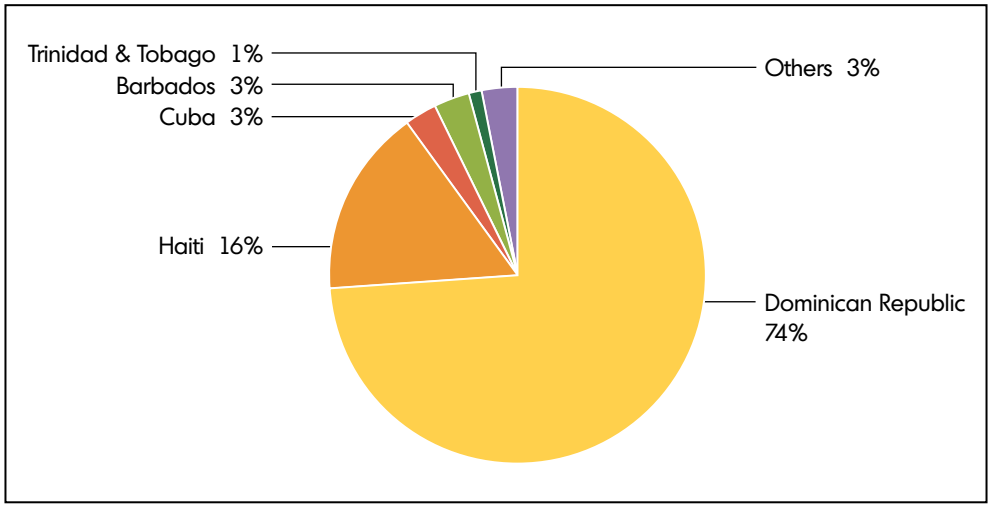
Source: UNCTADStat, *Trade Structure by Partner, Product or Service-Category*. New York: UNCTADStat, 2013a

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



Source: UNCTADStat, *Trade Structure by Partner, Product or Service-Category*. New York: UNCTADStat, 2013a

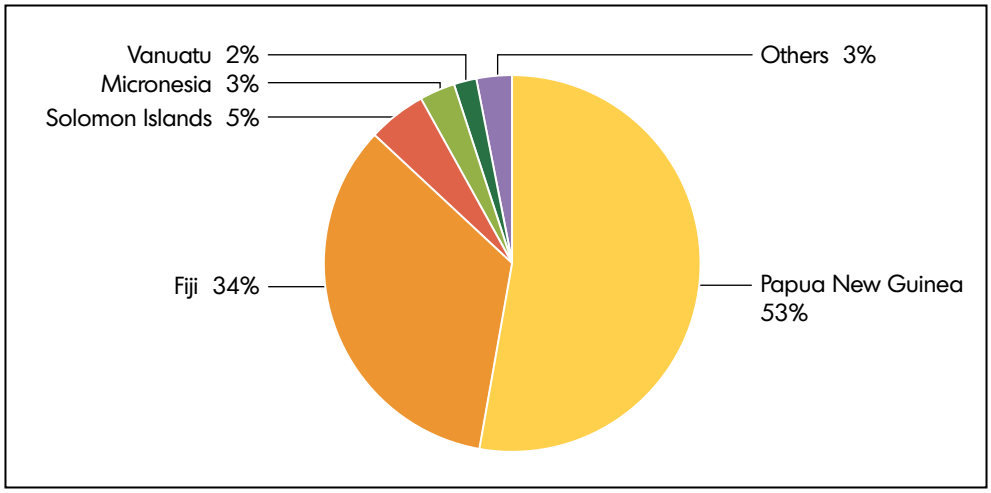
Annex 2d: Export shares of the five biggest export countries of miscellaneous manufactured articles in the Caribbean



Source: UNCTADStat, *Trade Structure by Partner, Product or Service-Category*. New York: UNCTADStat, 2013a

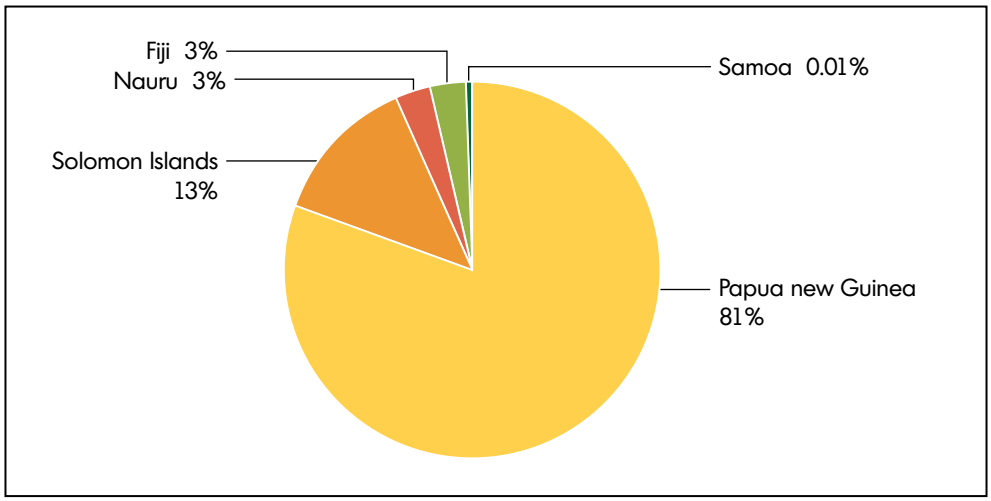
ANNEX 3: EXPORT SHARES OF THE FIVE MAJOR EXPORT COUNTRIES IN THE PACIFIC FOR 2012, DIVIDED BY MAJOR EXPORT PRODUCTS

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



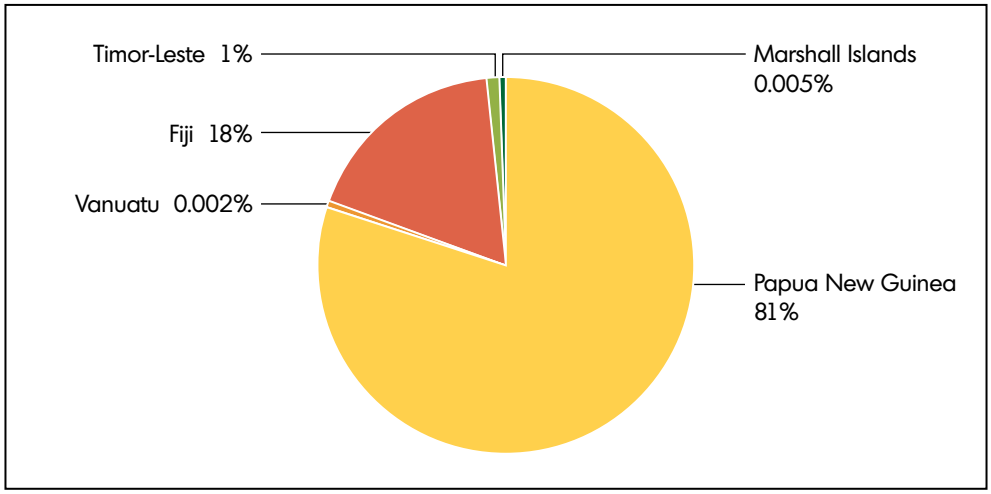
Source: UNCTADStat, *Trade Structure by Partner, Product or Service-Category*. New York: UNCTADStat, 2013a

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



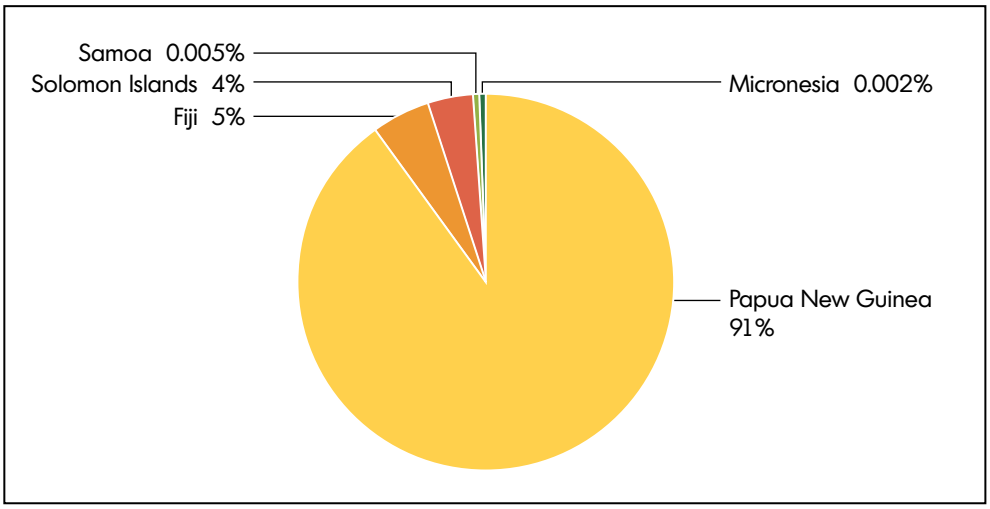
Source: UNCTADStat, *Trade Structure by Partner, Product or Service-Category*. New York: UNCTADStat, 2013a

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



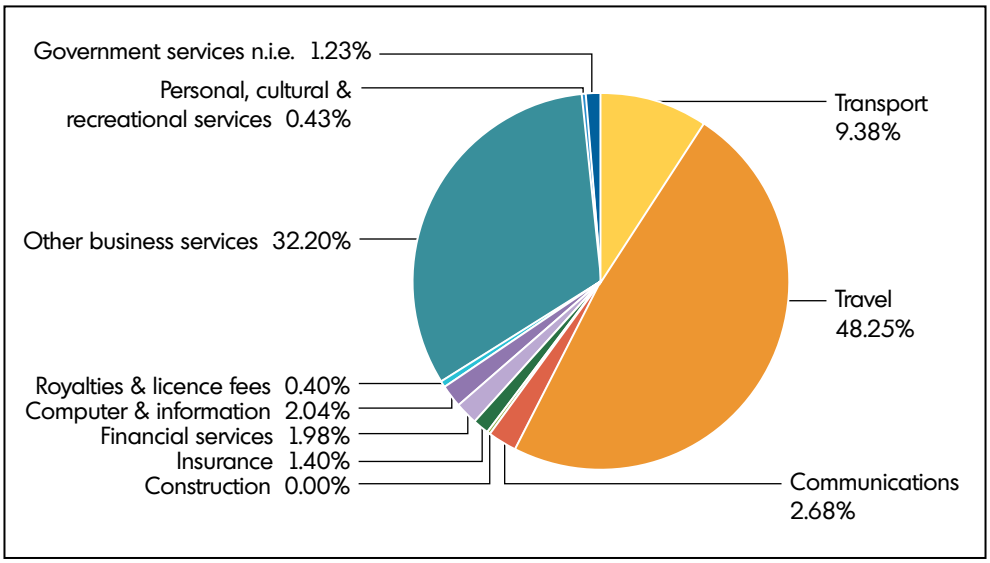
Source: UNCTADStat, *Trade Structure by Partner, Product or Service-Category*. New York: UNCTADStat, 2013a

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

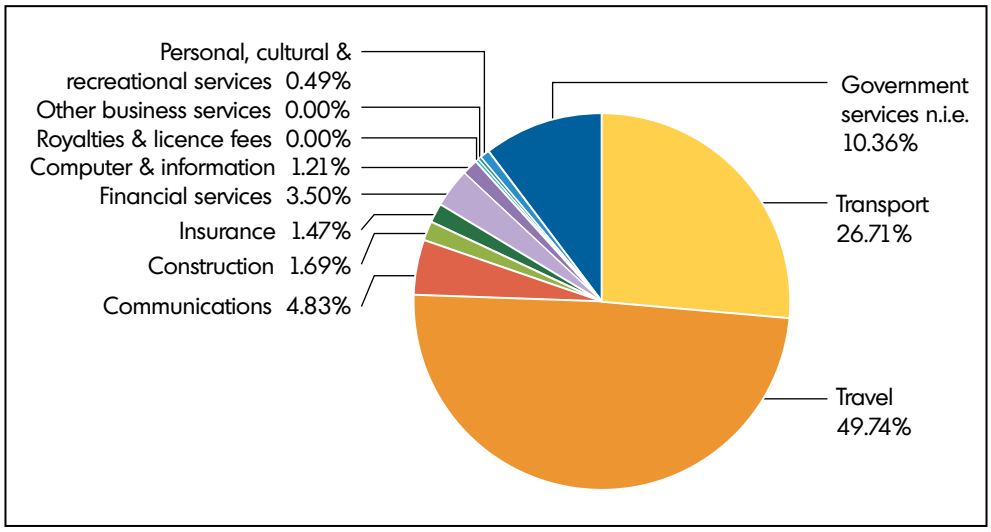


Source: UNCTADStat, *Trade Structure by Partner, Product or Service-Category*. New York: UNCTADStat, 2013a

Annex 4a: Services exports of the African countries characterised by services groups, expressed in shares of total services exports for 2012



Annex 4b: Services exports of the Caribbean countries characterised by services groups, expressed in shares of total services exports for 2012

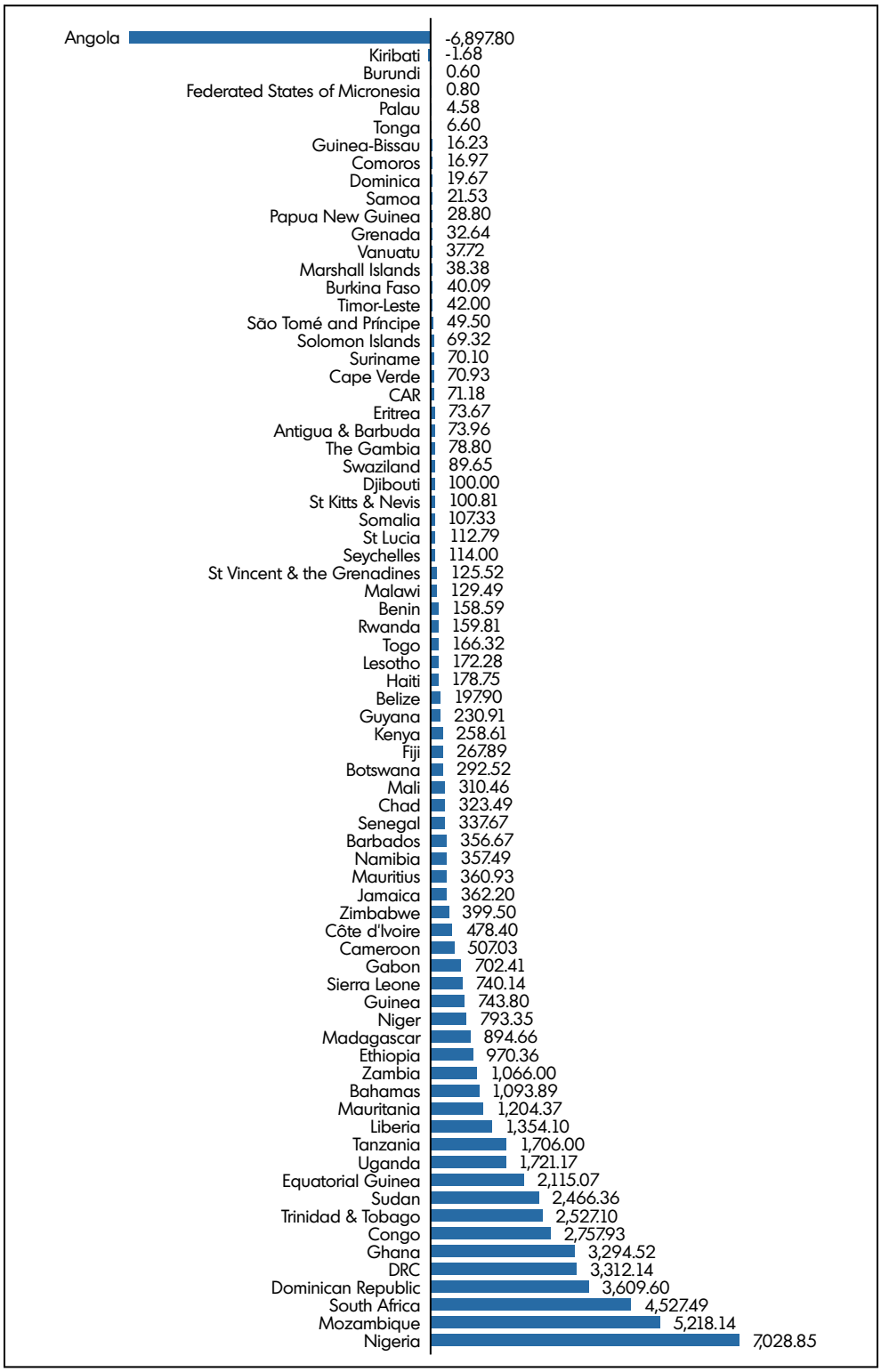


Note: Data for the Pacific countries is not available

Source: UNCTADStat, *Trade Structure by Partner, Product or Service-Category*. New York: UNCTAD-Stat, 2013a

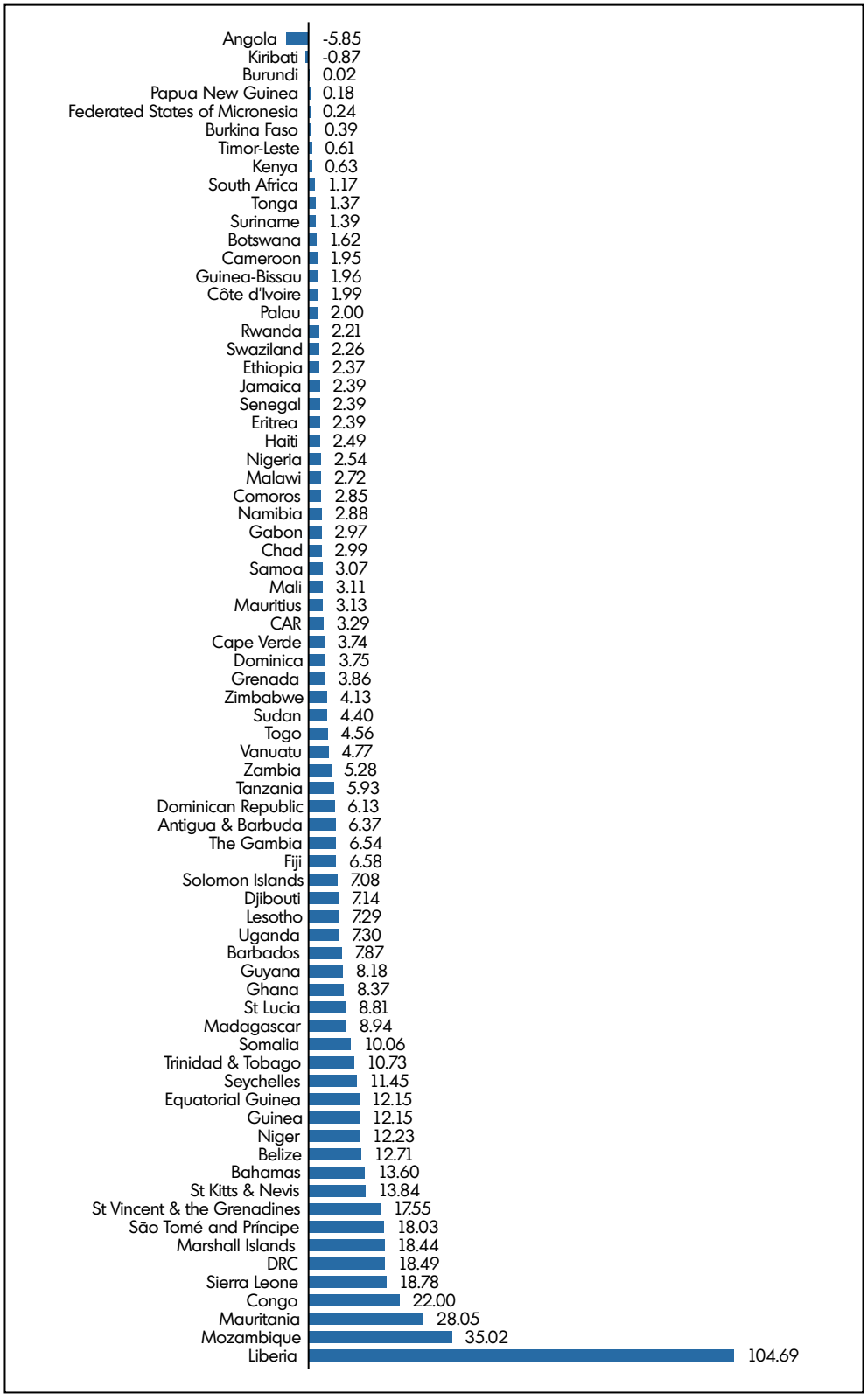
ANNEX 5: FDI INFLOWS IN ACP COUNTRIES IN TOTAL (MILLIONS OF $) AND RELATIVE (% OF GDP) TERMS FOR 2012

Annex 5a: FDI inflows in ACP countries in millions of $ for 2012



Source: UNCTADStat, *Foreign Direct Investment Flows and Stocks*. New York: UNCTADStat, 2013b

Annex 5b: FDI inflows in ACP countries in % of GDP for 2012



Source: UNCTADStat, *Foreign Direct Investment Flows and Stocks*. New York: UNCTADStat, 2013b

ANNEX 6: CLASSIFICATION OF THE DEVELOPMENTAL LEVELS OF THE ACP COUNTRIES ACCORDING TO THE HDI 2013

Very high human development	High human development	Medium human development	Low human development
Barbados	Bahamas	Suriname	Haiti
The Seychelles	Cuba	Guyana	Solomon Islands
	Grenada	Kiribati	Papua New Guinea
	Trinidad & Tobago	Tonga	Congo-Brazzaville
	Antigua & Barbuda	Samoa	São Tomé and Príncipe
	Dominica	Fiji	Kenya
	St Vincent & the Grenadines	Gabon	Angola
		Federated States of Micronesia	Cameroon
	Jamaica	Vanuatu	Madagascar
	St Lucia	Timor-Leste	Tanzania
	Palau	Namibia	Nigeria
	Mauritius	Cape Verde	Senegal
		Ghana	Mauritania
		Equatorial Guinea	Lesotho
		Swaziland	Togo
		Belize	Uganda
		Gabon	Zambia
		Botswana	Djibouti
		South Africa	The 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
			DRC

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

Source: UNDP (UN Development Programme), *Human Development Report*. New York: UNPD, 2013

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	Angola	Antigua and Barbuda	Burkina Faso	Guinea
Sierra Leone	Congo-Brazzaville	The Bahamas	Burundi	Guyana
	Mauritania	Benin	DRC	Sudan
	Trinidad & Tobago	Botswana	Ethiopia	
	Zambia	Cape Verde	Mozambique	
	Zimbabwe	Cuba	Tanzania	
		Dominica		
		Dominican Republic		
		Fiji		
		The Gambia		
		Ghana		
		Grenada		
		Jamaica		
		Kenya		
		Kiribati		
		Lesotho		
		Malawi		
		Mauritius		
		Palau		
		Rwanda		
		Samoa		
		Senegal		
		Seychelles		
		South Africa		
		St Kitts & Nevis		
		St Lucia		
		St Vincent & the Grenadines		
		Suriname		
		Togo		
		Tonga		
		Tuvalu		
		Uganda		
		Vanuatu		
		Zambia		
		Zimbabwe		

Source: World Bank, *World Development Indicators 2013*. Washington, DC: World Bank, 2013b

ANNEX 8: CLASSIFICATION OF ACP COUNTRIES INTO GLOBAL AND REGIONAL POWERS ACCORDING TO THE KOF INDEX OF GLOBALISATION 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 The Gambia Uganda	Cuba Grenada Suriname	Papua New Guinea Samoa Vanuatu

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

Source: Dreher A, 'Does globalization affect growth? Evidence from a new index of globalization', *Applied Economics*, 38, 10, 2006, pp. 1091–1110

ANNEX 9: CLASSIFICATION OF ACP COUNTRIES BASED ON THE CONGRUENCE OF THE KOF INDEX OF GLOBALISATION AND THE WEF'S GET INDEX

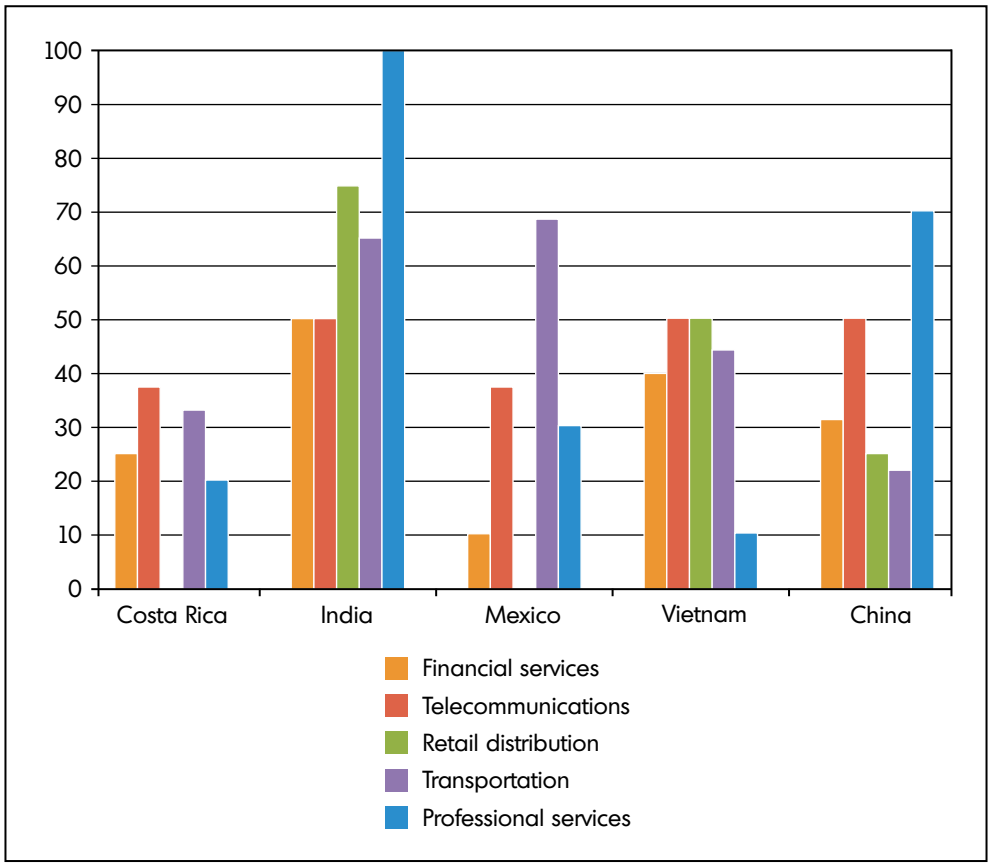
> World median	< World > African	< African	KOF > GET		KOF < GET	
			Weak	Strong	Weak	Strong
Mauritius South Africa	Ghana Kenya Mozambique Uganda	Benin Burkina Faso Burundi Chad DRC Ethiopia Madagascar Mauritania	Angola Cameroon Côte d'Ivoire Lesotho Mali Namibia Zambia Zimbabwe	Nigeria	Botswana Malawi Tanzania	Rwanda

> World median	< World > Carribean	< Carribean	KOF > GET		KOF < GET	
			Weak	Strong	Weak	Strong
	Dominican Republic Jamaica	Guyana Haiti				

Note: Missing countries in the GET index include Antigua and Barbuda, the Bahamas, Belize, Cape Verde, the CAR, Comoros, Congo-Brazzaville, Cuba, Djibouti, Dominica, Equatorial Guinea, Eritrea, Fiji, Gabon, Grenada, Guinea, Guinea-Bissau, Kiribati, Liberia, Niger, São Tomé and Príncipe, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, the Seychelles, Sierra Leone, Somalia, Sudan, Swaziland, Togo, Trinidad and Tobago and all Pacific countries.

Source: Dreher A, 'Does globalization affect growth? Evidence from a new index of globalization', *Applied Economics*, 38, 10, 2006, pp. 1091–1110; Lawrence RZ, Hanouz MC & S Doherty, *Reducing Supply Chain Barriers*, Global Enabling Trade Report 2012. Geneva: WEF, 2012

ANNEX 10: OPENNESS TO FOREIGN SUPPLIERS OF FIVE SERVICES SECTORS (MODE 3 OF TRADE IN SERVICES) OF THE NON-ACP STANDARD OF MEASUREMENT COUNTRIES INCLUDED IN THE WORLD BANK'S SERVICES TRADE RESTRICTIONS DATABASE

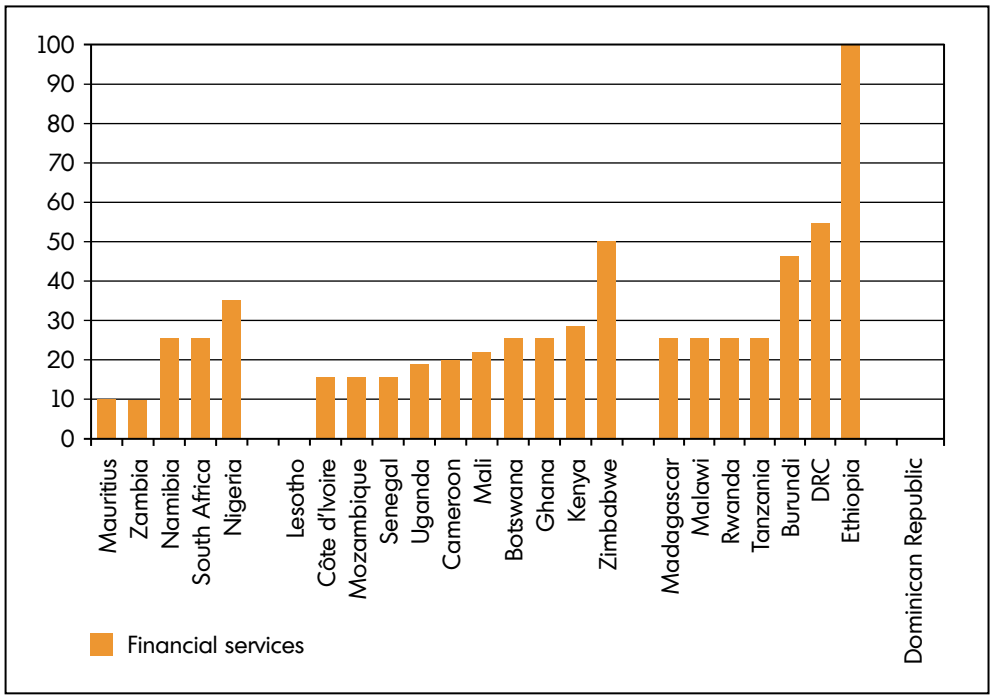


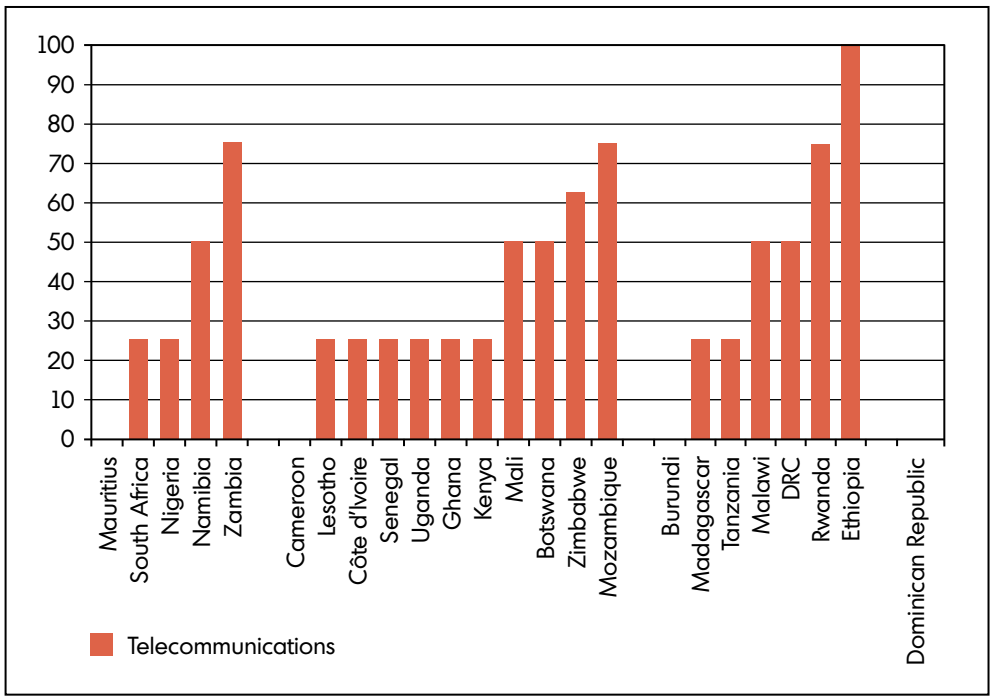
Note: Data for Hong Kong, Singapore and Iceland is not available

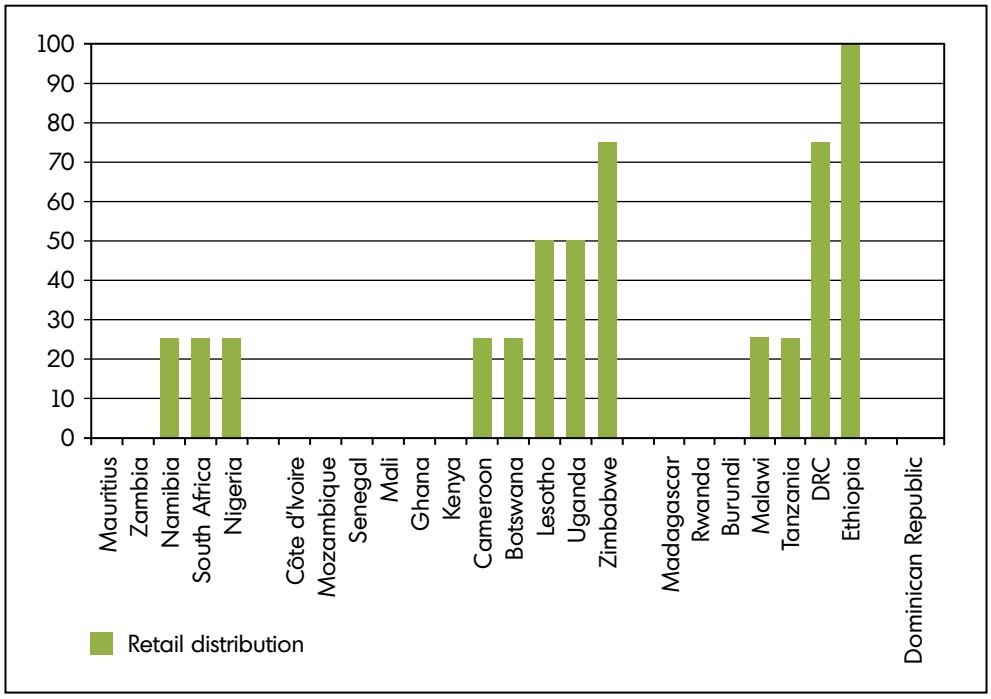
Note: The classification of the degree of restriction based on the index score is the following: completely open (0); virtually open with minor restrictions (25); major restrictions (50); virtually closed with limited opportunities to enter and operate (75); and completely closed (100)

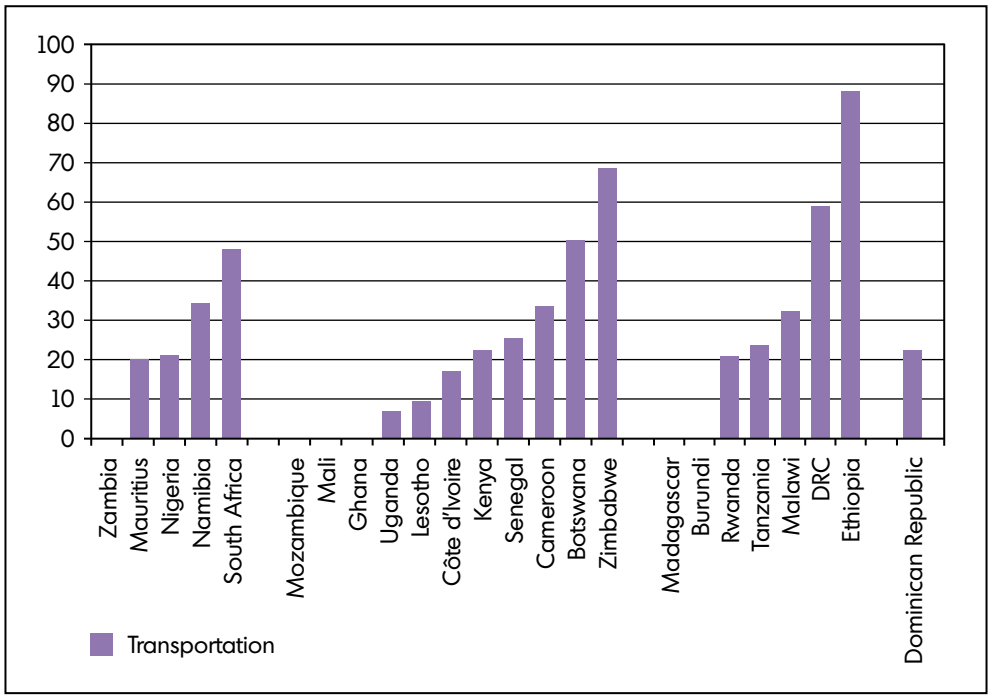
Source: Borchert I, Gootiiz B & A Mattoo, 'Guide to the Services Trade Restrictions Database', World Bank Policy Research Working Paper, WPS6108. Washington, DC: World Bank, 2012

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






100
90
80
70
60
50
40
30
20
10
0
Mauritius
Zambia
Namibia
South Africa
Nigeria
Côte d'Ivoire
Mozambique
Senegal
Mali
Ghana
Kenya
Cameroon
Botswana
Lesotho
Uganda
Zimbabwe
Madagascar
Rwanda
Burundi
Malawi
Tanzania
DRC
Ethiopia
Dominican Republic
Retail distribution


100
90
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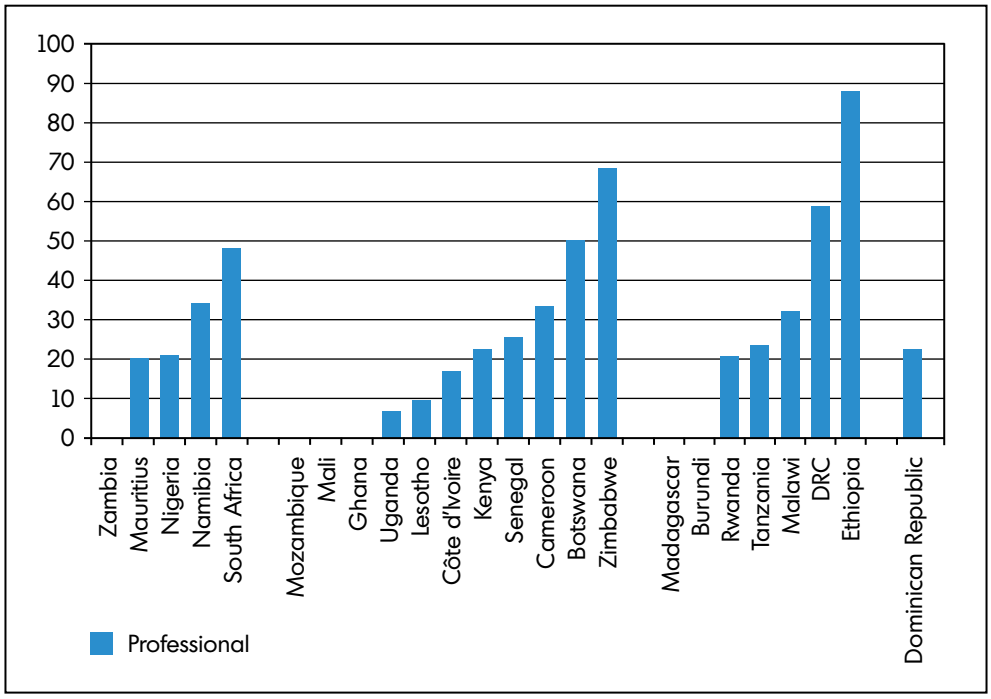
Zambia
Mauritius
Nigeria
Namibia
South Africa
Mozambique
Mali
Ghana
Uganda
Lesotho
Côte d'Ivoire
Kenya
Senegal
Cameroon
Botswana
Zimbabwe
Madagascar
Burundi
Rwanda
Tanzania
Malawi
DRC
Ethiopia
Dominican Republic
Transportation

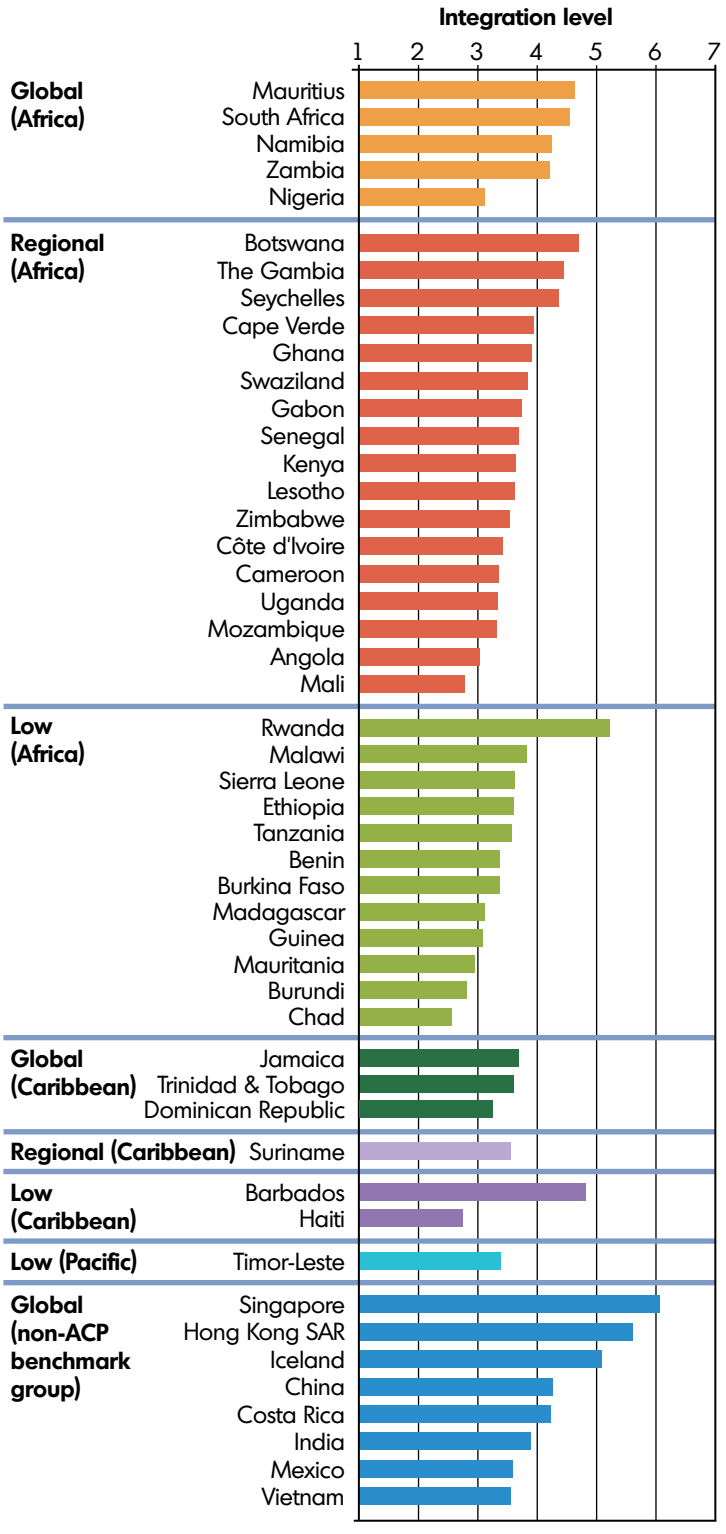


Note: A low score indicates relatively greater openness

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

Source: Borchert I, Gootiiz B & A Mattoo, 'Guide to the Services Trade Restrictions Database', World Bank Policy Research Working Paper, WPS6108. Washington, DC: World Bank, 2012

ANNEX 12: QUALITY OF INSTITUTIONS IN ACP COUNTRIES BASED ON THE WEF'S GCI 2013

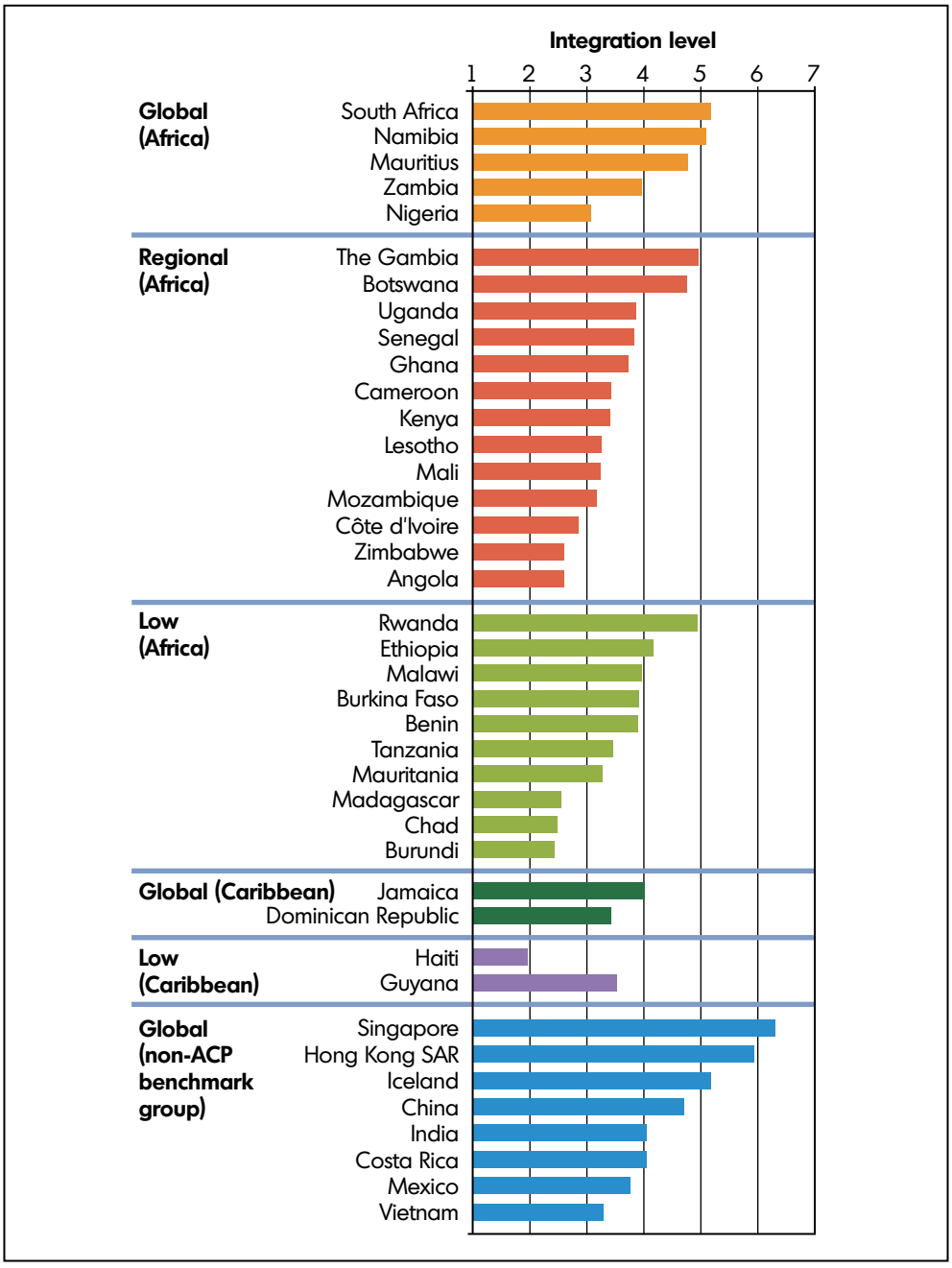


Note: Index scores vary between 1 (worst) and 7 (best)

Note: Missing countries: Antigua and Barbuda, the Bahamas, Belize, the CAR, Comoros, Congo-Brazzaville, Cuba, Djibouti, Dominica, the DRC, Equatorial Guinea, Eritrea, Fiji, Grenada, Guinea-Bissau, Guyana, Kiribati, Liberia, Niger, São Tomé and Príncipe, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Somalia, Sudan, Togo, all Pacific countries except Timor-Leste

Source: Schwab K & X Sala-i-Martin, *The Global Competitiveness Report 2013–2014*. Geneva: WEF, 2013

ANNEX 13: QUALITY AND GRANTING OF PROPERTY RIGHTS IN ACP COUNTRIES BASED ON THE WEF'S GCI 2013

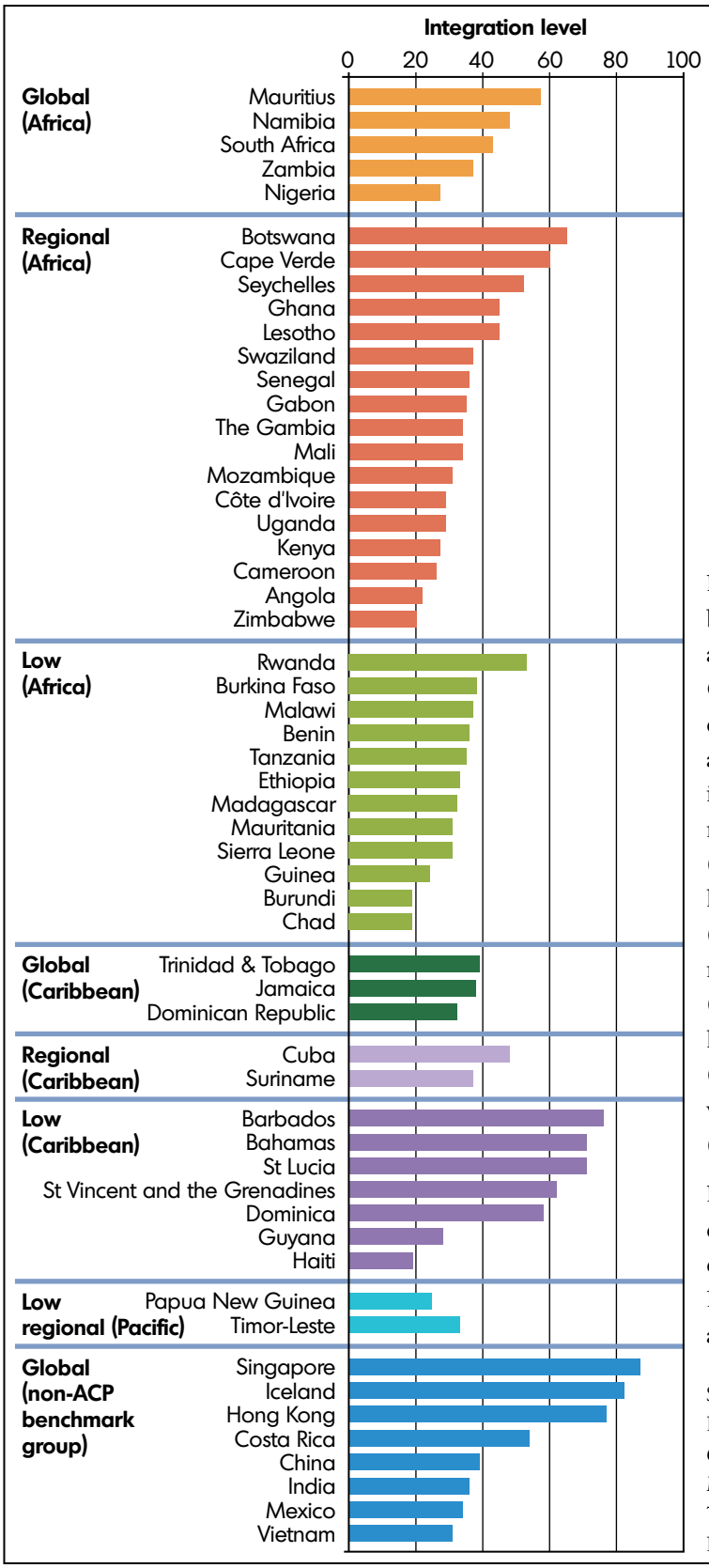


Note: Index scores vary between 1 (worst) and 7 (best)

Note: Missing countries: Antigua and Barbuda, the Bahamas, Barbados, Belize, the CAR, Comoros, Congo-Brazzaville, Cuba, Djibouti, Dominica, the DRC, Equatorial Guinea, Eritrea, Fiji, Grenada, Guinea-Bissau, Guyana, Kiribati, Liberia, Niger, São Tomé and Príncipe, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Somalia, Sudan, Suriname, Togo, Trinidad and Tobago, all Pacific countries.

Source: Schwab K & X Sala-i-Martin, The Global Competitiveness Report 2013–2014. Geneva: WEF, 2013

ANNEX 14: CORRUPTION PERCEPTION INDEX 2012

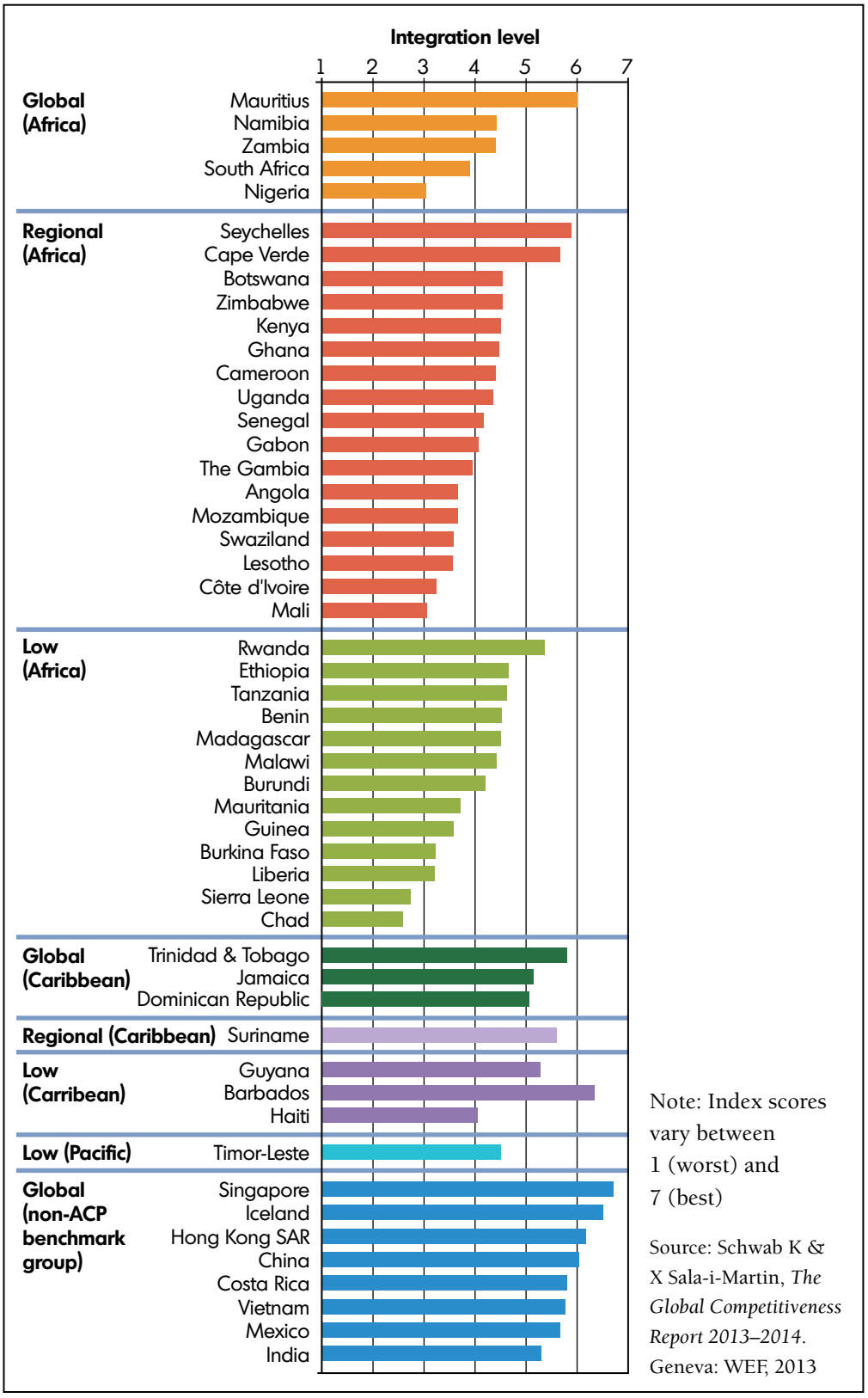


Note: Indices vary between 0 (worst) and 100 (best). Classification of corruption levels according to the index is as follows: no corruption (100–81); low corruption (80–61); medium corruption (60–41); high corruption (40–21); and very high corruption (20–0).

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

Source: Transparency International, *Corruption Perception Index 2012*. Berlin: Transparency International, 2012

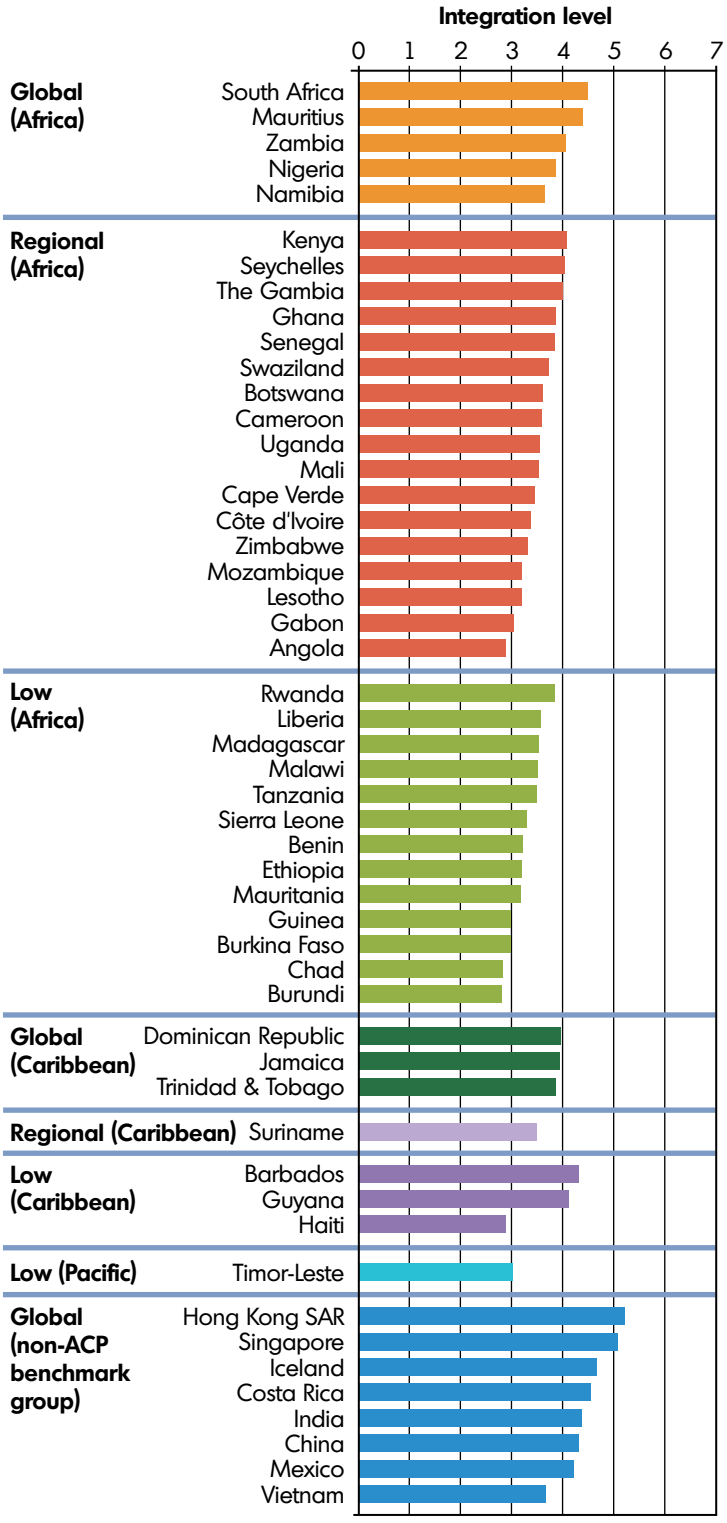
ANNEX 15: HEALTH STATUS AND QUALITY OF PRIMARY EDUCATION IN ACP COUNTRIES BASED ON THE WEF'S GCI 2013



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

Source: Schwab K & X Sala-i-Martin, *The Global Competitiveness Report 2013–2014*. Geneva: WEF, 2013

ANNEX 16: DEGREE OF BUSINESS SOPHISTICATION IN ACP COUNTRIES BASED ON THE WEF'S GCI 2013

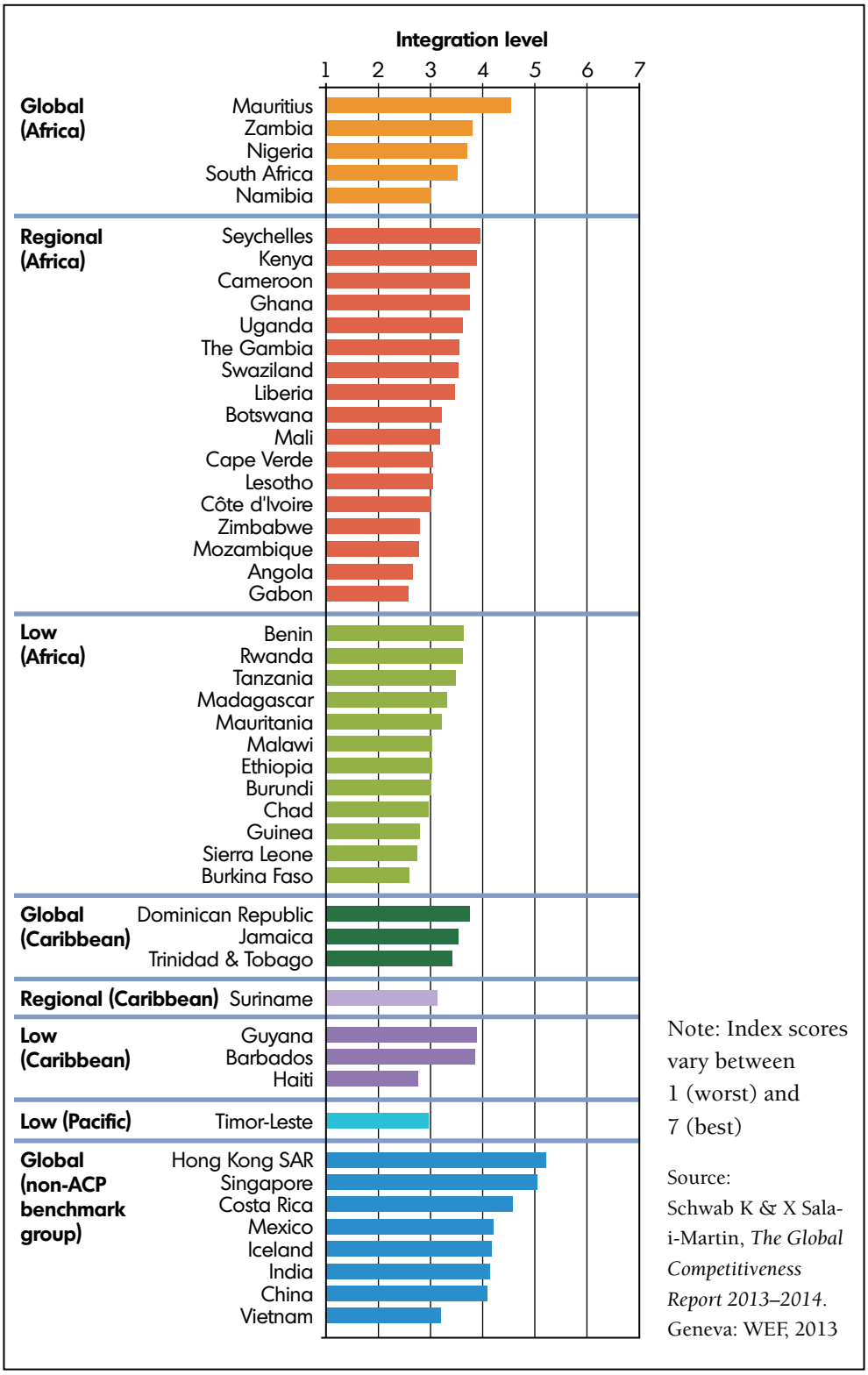


Note: Index scores vary between 1 (worst) and 7 (best)

Note: Missing countries: Antigua and Barbuda, The Bahamas, Belize, CAR, Comoros, Congo-Brazzaville, Cuba, Djibouti, Dominica, DRC, Equatorial Guinea, Eritrea, Fiji, Grenada, Guinea-Bissau, Guyana, Kiribati, Liberia, Niger, São Tomé and Príncipe, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Somalia, Sudan, Togo, all Pacific countries except Timor-Leste

Source: Schwab K & X Sala-i-Martin, *The Global Competitiveness Report 2013–2014*. Geneva: WEF, 2013

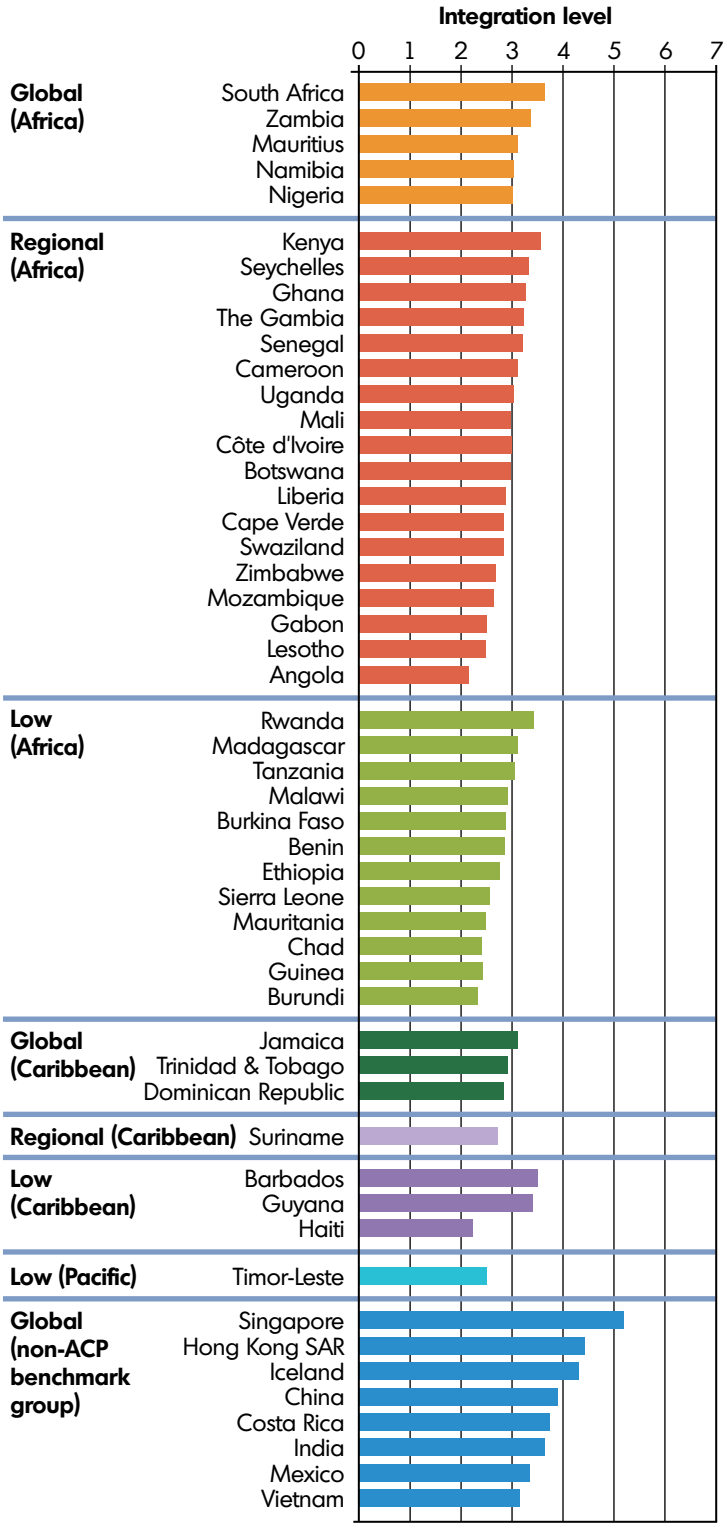
ANNEX 17: EXTENT OF VALUE CHAIN BREADTH IN ACP COUNTRIES BASED ON THE WEF'S GCI 2013



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

Source: Schwab K & X Sala-i-Martin, *The Global Competitiveness Report 2013–2014*. Geneva: WEF, 2013

ANNEX 18: EXTENT OF INNOVATION CAPACITY IN ACP COUNTRIES BASED ON THE WEF'S GCI 2013

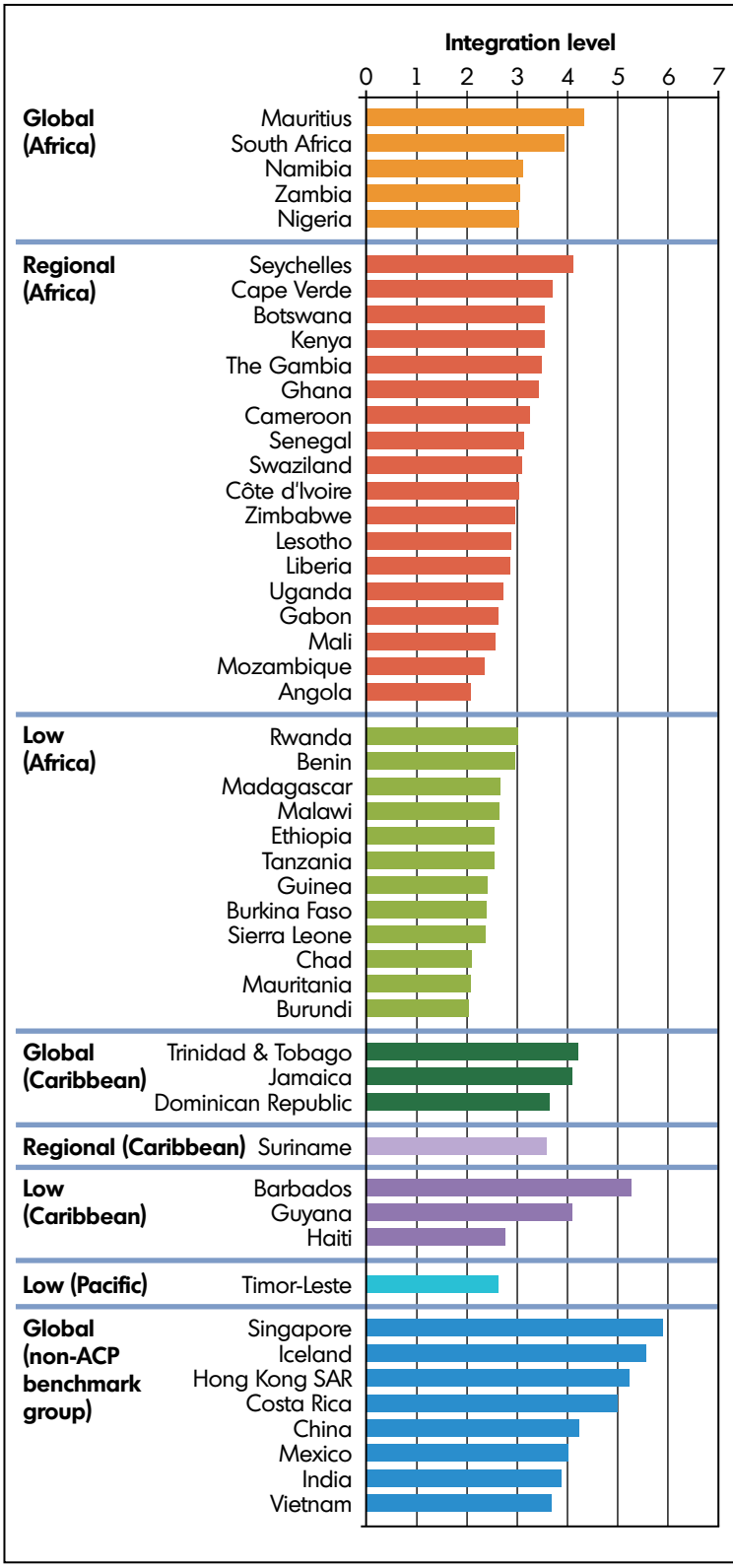


Note: Index scores vary between 1 (worst) and 7 (best)

Note: Missing countries: Antigua and Barbuda, The Bahamas, Belize, CAR, Comoros, Congo-Brazzaville, Cuba, Djibouti, Dominica, the DRC, Equatorial Guinea, Eritrea, Fiji, Grenada, Guinea-Bissau, Guyana, Kiribati, Liberia, Niger, São Tomé and Príncipe, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Somalia, Sudan, Togo, all Pacific countries except Timor-Leste

Source: Schwab K & X Sala-i-Martin, *The Global Competitiveness Report 2013–2014*. Geneva: WEF, 2013

ANNEX 19: QUALITY OF HIGHER EDUCATION IN ACP COUNTRIES BASED ON THE WEF'S GCI 2013



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

Note: Missing countries: Antigua and Barbuda, the Bahamas, Belize, the CAR, Congo-Brazzaville, Cuba, Djibouti, Dominica, the DRC, Equatorial Guinea, Eritrea, Fiji, Grenada, Guinea-Bissau, Guyana, Kiribati, Liberia, Niger, São Tomé and Príncipe, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Somalia, Sudan, Togo, all Pacific countries except Timor-Leste

Source: Schwab K & X Sala-i-Martin, *The Global Competitiveness Report 2013–2014*. Geneva: WEF, 2013

ANNEX 20: SHORT DESCRIPTIONS OF THE INDICES USED IN THE DATA ANALYSIS

Availability and quality of transport infrastructure (GET subindex)
Includes measures of airport density, transhipment connectivity and paved roads, and the quality of air transport infrastructure, railroad infrastructure, and roads and port infrastructure.

Availability and quality of transport infrastructure services (GET subindex)
Comprises inter alia liner shipping connectivity, ease and affordability of shipment, logistics competence, postal services efficiency and General Agreement in Trade and Services commitments in the transport sector.

Business sophistication (GCI subindex)
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 subindex)
Includes the tariff rate, non-tariff measures, complexity of tariffs (ie, 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 businesses 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 (GCI subindex)
The indicator comprises quality of electricity supply, mobile telephone subscriptions and fixed telephone lines.

Global Enabling Trade Index (GET)
Consists of four measures, namely market access, border administration, transport and communication, and business environment.

Health and primary education (GCI subindex)
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 quality and the enrolment rate.

Higher education and training (GCI subindex)
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 subindex)
Comprises inter alia capacity for innovation, quality of scientific research institutions, company spending on research and development, availability of scientists and engineers and intellectual property protection.

Institutions (GCI subindex)
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 Globalisation
Measures the economic, social and political dimension of globalisation. 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 (eg, telephone traffic, tourism), information flows (eg, internet users, televisions) and cultural proximity (eg, trade in books, number of Ikea outlets). The political dimension comprises the number of embassies in the country, membership in international organisations, participation in UN Security Council Missions and international treaties.

Logistics Performance Index (LPI)
Includes six components, namely 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 subindex
Subindex of the institutions indicator, comprising property rights and intellectual property protection.

SOURCES

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Lawrence RZ, Hanouz MD & S Doherty, *Global Enabling Trade Report 2012: Reducing Supply Chain Barriers*. Geneva: World Economic Forum, 2012.

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Transparency International, Corruption Perception Index 2012, 2012.

UNDP (UN Development Programme), *Human Development Report 2013*. New York: UNDP, 2013.

World Bank, *The Doing Business Report 2014: Understanding Regulations for Small and Medium-sized Enterprises*, 11th ed. Washington, DC: World Bank, 2013.

ENDNOTES

1 The report is based on a study the authors conducted for the Programme Management Unit (PMU) of the ACP Multilateral Trading System (MTS) Programme. The authors wish to thank Anabel González, Junior Lodge, Jan Rieländer and Ivan Oliveira for their very helpful comments on an earlier version. Remaining errors are the responsibility of the authors.

2 Venables AJ, 'Fragmentation and multinational production', *European Economic Review*, 43, 1999, pp. 935–945.

3 Baldwin R, *Globalisation: The Great Unbundling(s)*, Report for the Prime Minister's Office, Economic Council of Finland, Helsinki, 2006.

4 Lanz R, Miroudot S & HK Nordås, 'Trade in Tasks', OECD (Organisation for Economic Co-operation and Development), Trade Policy Working Paper, 117. Paris: OECD, 2011.

5 Mumuni AM, 'Opportunities offered by South–South trade for the economic and trade development of ACP states', keynote address by the Secretary General at the 4th Global Review of Aid for Trade: Connecting to Value Chains, Geneva, 9–10 July 2013.

6 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 (eg, human resource management, marketing and sales). See Lanz R, Miroudot S & HK Nordås, *op. cit*. However, this report adheres to the paradigm of trade in tasks developed by Grossman and Rossi-Hansberg (see Grossman G & E Rossi-Hansberg, 'Trading tasks: a simple model of offshoring', *American Economic Review*, 98, 2008, pp. 1978–1997), 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 in the nature of trade from pure exchange of goods to value-adding processes in many different locations.

7 Cattaneo O *et al.*, 'Joining, Upgrading and Being Competitive in Global Value Chains', Policy Research Working Paper, 6406. Washington, DC: World Bank, 2013, p. 4f.

8 Stephenson S, 'Services in global value chains', in *World Economic Forum: The Shifting Geography of Global Value Chains: Implications for Trade Policy*. Geneva: WEF (World Economic Forum), 2012.

9 WTO (World Trade Organization), *Trade Patterns and Global Value Chains in East Asia: From Trade in Goods to Trade in Tasks*. Geneva: WTO, 2011.

10 *Ibid.*

11 Sirkin HL, Zinser M & D Hohner, *Made in America, Again – Why Manufacturing Will Return to the US*. Boston: The Boston Consulting Group, August 2011; Draper P & R Lawrence, 'How should sub-Saharan African countries think about global value chains?', *Bridges Africa Review*, 2, 1, 2013.

12 This is exemplified in Stern and Ward (see Stern M & N Ward, *Identifying the Offensive Interests of African Least Developed Countries (LDCs) in WTO Services Negotiations*. Pretoria: DNA Economics, 2013), for Africa, and Ward (see Ward N, *The CARIFORUM Economic Partnership Agreement (EP) Services and Investment Negotiations: Insights from Least Developed Countries (LDCs) in Operationalizing the World Trade Organization's (WTO) Service Waiver*. Geneva: IDEAS Centre, 2013) for the Caribbean countries organised in the CARIFORUM, respectively, who show the interests of ACP countries in services trade.

13 Ernst D & L Kim, 'Global production networks, knowledge diffusion, and local capability formation', *Research Policy*, 31, 2002, pp. 1417–1429.

14 Gereffi G *et al.*, *Introduction: Globalisation, Value Chains and Development*, IDS Bulletin 32.3. Brighton: Institute of Development Studies and Wiley-Blackwell, 2001.

15 This can be seen in Annexures 1 through 4, where the trade performance of ACP countries is displayed. As noted above, reference is made to trade statistics. This means that further analyses are necessary; see Mumuni AM, *op. cit.*

16 Draper P & R Lawrence, *op. cit.*

17 Ernst D & L Kim, *op. cit.*

18 Bhatia K, 'General electric corporation – advanced manufacturing in perspective', in *World Economic Forum: The Shifting Geography of Global Value Chains*, *op. cit.*

19 Baldwin R, 'WTO 2.0: Thinking ahead on global trade governance', *voxEU.org*, 22 December 2012.

20 Bhatia K, *op. cit.* This observation fits well into the general observation of the development community that institutions are the main drivers of successful development.

21 World Bank, *World Development Indicators 2013*. Washington, DC: World Bank, 2013b.

22 Thanks go to Anabel Gonzalez, Trade Minister of Costa Rica, for this observation.

23 Bernhardt T, 'Developing Countries in the Global Apparel Value Chain: A Tale of Upgrading and Downgrading Experiences', Capturing the Gains 2013, Working Paper, 22. New York: New School for Social Research, 2013.

24 Kaplinsky R, 'The Role of Standards in Global Value Chains', Policy Research Working Paper Series, 5396. Washington, DC: World Bank, 2010.

25 Kaplinsky R & M Morris, *A Handbook for Value Chain Research*, report prepared for the International Development Research Centre. Ottawa: International Development Research Centre, 2001.

26 Meyer-Stamer J, 'Regional Value Chain Initiatives: An Opportunity for the Application of the PACA-Approach', Mesopartner, Working Paper, 06, 2004.

27 Ogunleyhe EK, 'Structural transformation in sub-Saharan Africa: The regional growth poles strategy', paper presented at the 2011 African Economic Conference, Addis Ababa, 25–28 October 2011.

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29 Ogunleyhe EK, *op. cit*.

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31 Speakman J & M Koivisto, *Growth Poles: Raising Competitiveness and Deepening Regional Integration*, the Africa Competitiveness Report. Washington, DC: World Bank, 2013, p. 93.

32 *Ibid.*, p. 94.

33 Kuchiki A, 'An Asian Triangle of Growth and Cluster-to-Cluster Linkages', Discussion Paper, 71. Chiba: Institute of Developing Economies, 2006.

34 ECA (Economic Commission for Africa), *Re-Launch of the Zambia, Malawi, Mozambique Growth Triangle: A Step towards Regional Integration at a Localized Level*, Press Release 110/2011. Addis Ababa: ECA, 2011.

35 Kuhlmann K, Sechler S & J Guinan, 'Africa's Development Corridors as Pathways to Agricultural Development, Regional Economic Integration and Food Security in Africa', TransFarm Africa Working Paper. Washington, DC: Aspen Institute, 2011.

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37 Draper P, 'Rethinking the (European) Foundations of Sub-Saharan African Regional Economic Integration: A Political Economy Essay', OECD Development Centre Working Paper, 293. Paris: OECD, 2010.

38 UNCTADStat (UN Conference on Trade and Development Statistics), *Trade Structure by Partner, Product or Service-Category*. New York: UNCTADStat, 2013a.

39 *Ibid.*

40 For the majority of Caribbean and Pacific countries, the data is based on estimates.

41 UNCTADStat 2013a, *op. cit*.

42 *Ibid.* The data is based on estimates.

43 Data for the Pacific countries is not available.

44 UNCTADStat, *Foreign Direct Investment Flows and Stocks*. New York: UNCTADStat, 2013b. For the majority of Caribbean and Pacific countries, the data is based on estimates. FDI flows are based 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.

45 For index description see Annex 20.

46 World Bank 2013b, *op. cit*.

47 Cattaneo O *et al.*, *op. cit.*, p. 14.

48 Dreher A, 'Does globalization affect growth? Evidence from a new index of globalization', *Applied Economics*, 38, 10, 2006, pp. 1091–1110. 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 includes ACP countries and their input-output tables. However, the data is 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, this report uses the KOF index as a general standard of a country's degree of global integration.

49 For index description see Annex 20.

50 Von Uexhull E, 'Regional Trade and Employment in ECOWAS', Employment Sector Working Paper, 114. Geneva: International Labour Office, 2012

51 Thanks go to Jan Rielander from the OECD Development Centre for this observation.

52 Cattaneo O *et al.*, *op. cit.*, p. 31.

53 Sturgeon TJ & O Memedovic, 'Mapping Global Value Chains: Intermediate Goods Trade and Structural Change in the World Economy', Development Policy and Strategic Research Branch Working Paper, 05. Vienna: UNIDO (UN Industrial Development Organization), 2010.

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56 OECD, 'Global value chains – Country notes – Iceland', 2013a, http://www.oecd.org/sti/ind/global-value-chains.htm.

57 Missing countries in the Global Enabling Trade Index are: Antigua and Barbuda, the Bahamas, Belize, Cape Verde, Central African Republic (CAR), Comoros, Congo-Brazzaville, Cuba, Djibouti, Dominica, Democratic Republic of the Congo (DRC), Equatorial Guinea, Eritrea, Fiji, Gabon, Grenada, Guinea, Guinea-Bissau, Kiribati, Liberia, Niger, São Tomé and Príncipe, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, the Seychelles, Sierra Leone, Somalia, Sudan, Swaziland, Togo, Trinidad and Tobago and all Pacific countries except Timor-Leste.

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

59 Hong Kong, Singapore and Iceland are not included in the dataset.

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

61 Borchert I, Gootiiz B & A Mattoo, 'Guide to the Services Trade Restrictions Database', World Bank Policy Research Working Paper, WPS6108. Washington, DC: World Bank, 2012.

62 The analysis of the non-ACP standard of measurement group is affected by the missing data for Hong Kong, Singapore and Iceland. Especially with Hong Kong and Singapore having the most open markets worldwide (1st and 2nd ranking according to the open markets index 2013, (see Finger M, *ICC Open Markets Index 2013*, 2nd ed. Paris: International Chamber of Commerce, 2013), the missing data for their services restrictiveness blurs the overall performance of the non-ACP group.

63 For index description see Annex 20.

64 For a detailed evaluation, a consideration of further aspects influencing the performance of the non-ACP standard of measurement is necessary. Costa Rica, for example, benefited considerably from its geographic proximity to Panama and its relatively good governance.

65 For index description see Annex 20.

66 For index description see Annex 20.

67 For index description see Annex 20.

68 For index description see Annex 20.

69 Cattaneo O *et al*., *op. cit*.

70 For index description see Annex 20.

71 Ghemawat P & SA Altman, *Analyzing Global Flows and Their Power to Increase Prosperity*, DHL Global Connectedness Index 2011. Bonn: DHL Bonn, 2011.

72 Schwab K & X Sala-i-Martin, *The Global Competitiveness Report 2013–2014*. Geneva: WEF, 2013.

73 Nigeria scores slightly higher than South Africa, indicating a broader presence of Nigerian businesses across the value chain. However, this result has to be viewed with caution. Contradicting a high diversification of the Nigerian economy, Adenugba and Dipo (see Adenugba AA & SO Dipo, 'Non-oil exports in the economic growth in Nigeria: A study of agricultural and mineral resources', *Journal of Educational and Social Research*, 3, 2, 2013, pp. 403–418) state that Nigerian exports are still dominated by crude oil exports, despite efforts aimed at export diversification since the 1970s. South Africa, however, has a considerably diversified export basket in comparison with the averages of developing countries (see Naudé W & R Rossouw, 'Export Diversification and Specialization in South Africa', Research Paper 2008/93. Helsinki: UNU-WIDER, 2008).

74 Ghemawat P & SA Altman, *op. cit*.

75 For index description see Annex 20.

76 For index description see Annex 20.

77 World Bank, *Understanding Regulations for Small and Medium-Sized Enterprises*, Doing Business Report 2014, 11th ed. Washington, DC: World Bank, 2013a.

78 For index description see Annex 20.

79 The regional average value includes the doing business values of Malta and the Maldives as small island states.

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83 Thanks go to Anabel Gonzalez, Trade Minister of Costa Rica, for useful comments on this issue.

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