ACP MTS PROGRAMME

Programme:	*Technical Assistance to the Integration to the Multilateral Trading System and Support to the Integrated Framework*
Country/Region:	**ACP Countries and the ACP Secretariat**
Project title:	**Technical Study on the Potential of ACP Countries to Participate in Global and Regional Value Chains**
Source of Financing:	**Third Programme Estimate - Activity nº 080-13**

ANNEX II: TERMS OF REFERENCE

1. BACKGROUND INFORMATION

1.1 Beneficiary

The Group of ACP States and the ACP Secretariat

1.2 Contracting Authority

The Contracting Authority for this project is the Programme Management Unit (PMU) of the ACP MTS PROGRAMME on behalf of the Regional Authorising Officer for the European Development Project N°2013/318-040.

1.3 Global Value Chains (GVC) – implications and preconditions

The development of global value chains (GVCs) has led to major structural changes in the world economy. The fragmentation of production processes on the one hand caused a higher integration of world markets on the other hand. Multinational firms are increasingly offshoring and outsourcing jobs and tasks. Thereby, these activities occur primarily between developed countries and certain developing or emerging economies.

In the literature concerning the impact of GVCs on developing and emerging economies, there is a consensus that participation within these networks is crucial for securing enhanced access to markets and knowledge networks, and new opportunities for production capability formation by local suppliers (Ernst and Kim, 2002). In order to participate in GVCs, a range of preconditions must be met, addressing a country's attractiveness to foreign firms and investments.

In this context, multinational firms that disperse their supply chain into global production networks, the so-called 'global network flagships,' are of particular importance (Ernst, Kim, 2002). In the target country, these firms choose local suppliers according to criteria such as reputation, quality and the speed of response. Meeting these criteria is especially important for local suppliers in developing countries in order to plug-in into GVCs. Moreover, for suppliers being already part of the GVC, strategies on how to gain higher value activities within GVCs are of high interest. These strategies aim at industrial upgrading, by product or process upgrading and intra-chain or inter-chain upgrading (Gereffi et al., 2001).

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

Furthermore, with foreign direct investment (FDI) being a main driver for the development of GVCs, the establishment and enhancement of an investment friendly environment is important. Considering this, infrastructural services play a key role. These services include transportation, telecommunication, finance and insurance, and energy. Their quality and efficiency determine the business and trade environments, and company performance. Therefore, these services function as enabling factors for a country's participation in GVCs. Beyond that, further factors influencing a country's trading environment such as the efficiency of border processes, customs practices and domestic regulations have to be considered as well.

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

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

1.4 The Role of GVCs for the ACP countries

When looking at the group of ACP countries, their huge heterogeneity in terms of geographical characteristics and economic development is immediately apparent. Furthermore, their generally small economic scales, and prevalence of small-scale producers and suppliers, means that plugging-in into existing value chains is another issue of interest. Therefore, the strategic goals of upgrading and plugging-in should be distinguished and assessed at the country-specific level.

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

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

1.5 The Relevance of RVCs

Approaching value chains at the regional level is useful since local producers who are not taking part in GVCs may be able to promote upgrading processes via regional cooperation. This may then lead to internationally acceptable productivity and quality standards, which allow the participation in GVCs in a next step (Meyer-Stamer, 2004). This is especially applicable for ACP countries with a high prevalence of small-scale producers. However, in order to assess the relevance of GVCs and RVCs for the ACP countries appropriately, the study has to set a clear distinction between both concepts.

A successful form of regional cooperation in South East Asia has been the concept of growth triangles. The concept aims at forming a sub-region for economic growth by linking adjacent areas of countries with different factor endowments and sources of comparative advantages (Kuchiki, 2006). By reducing regulatory barriers it aims at attracting more domestic and foreign investment and promoting the countries' exports. First attempts by

African countries have been made with the Zambia-Malawi-Mozambique Growth Triangle (ZMM-GT), which was re-launched in 2011 (Economic Commission for Africa, 2011).

Another approach focuses on ‘development corridors’. The concept aims at using existing roads and railroads and to link mines and other investments in the area with regional markets and ports in order to enable the movement of food, goods, services and information (Kuhlman et al., 2011).

Additionally, it has to be assessed whether aid for trade (AfT) can be used to support investments in remote areas in order to support the integration of these regions into RVCs. Collier (2013) argues that beside weak governance, one reason for underdevelopment is remoteness. AfT may be an instrument to connect remote regions with economic centers, in a process known as developing regional growth corridors, or poles. The paper will consider the option of utilizing AfT for this purpose.

2. AIM OF THE STUDY

The aim of the study is the assessment of opportunities for, and preparedness of, ACP countries to integrate in value chains or upgrade within existing chains.

A detailed consideration will be conducted on the following elements:

- First, the status quo comprising current trade patterns and the main export goods will be assessed in order to get a picture of the ACP countries’ trade structure.
- Secondly, the study will focus on the countries’ institutional and infrastructural impediments to trade and integration into GVCs.
- On the basis of that, first implications aiming at tackling existing challenges for deeper integration into world trade will be drawn. Policy options regarding trade facilitation measures will be assessed.
- Furthermore, in consideration of the different approaches to value chain participation (GVC vs. RVC) strategically desirable measures will be evaluated.

3. METHODOLOGY

The data analysis will be conducted in a descriptive way. First, the ACP countries will be clustered in groups. Subsequently, existing trade and investment patterns will be examined and illustrated. The analysis will furthermore draw on some basic indexes addressing institutional and infrastructural conditions within the countries and which condition their value chain participation.

It has to be considered that the analysis will be subject to severe data constraints, especially for some of the Caribbean and Pacific islands.

3.1 Clustering the ACP Countries

The ACP Group of countries consists of 79 member states: 48 countries from Sub-Saharan Africa, 16 from the Caribbean and 15 from the Pacific. In light of this considerable number of states and the heterogeneity between them, it is necessary to cluster the countries according to several characteristics including geography, location, development status, factor and resource endowments. This will allow for a more differentiated and focused analysis of the ACP countries’ potential for value chain participation.

Therefore, clustering should e.g. be done by the following characteristics:

- Level of industrialization
- Intensity of service orientation
- Relevance of resources
- Regional trade intensity
- Continents

- Landlocked or not
- Islands or not
- State of development, measured e.g. by HDI

3.2 Trade and Investment Patterns

Within the data analysis, trade patterns in terms of export and import structures should be assessed. World Bank Data covers a wide range of ACP countries. At the sectoral level, the analysis aims to identify critical export products. Furthermore, looking at current inflows of FDI and their sectoral allocation will also be of interest. Data from the World Bank, the WTO and UNCTAD will be used to assess this item. Moreover, data on trade in services (probably best applicable by taking FDI in services, the Mode 3 of the GATS) will also be included into the analysis.

3.3 Indexes

In order to deepen the analysis of trading conditions within the ACP countries, it is useful to look at a number of indexes, which address the countries' trade environment. On the basis of these results, conclusions can be drawn for improving the countries' trading environment.

The principal indexes to be used are:

- The Logistics Performance Index (by the World Bank), which is a global benchmark indicator and helps identify trade logistics barriers. It gives an overview of shortfalls in a country's access to supply chains.
- The Global Enabling Trade Index (by the World Economic Forum, included in the Global Enabling Trade Report), which assesses trade policy, border administration, transportation and communication, and the general business environment.
- The Doing Business Index (by the World Bank), which serves as an indicator for regulatory capabilities and issues.
- The Global Competitiveness Index (by the World Economic Forum), which serves as a general indicator of a country's competitiveness.
- KOF Globalization Index
- DHL Global Connectedness Index

4. Time Frame

The project will commence on signature of the contract, with delivery the latest on December 15th, 2013 (8 weeks work).

5. Budget

The total fee will be EUR 19,500.

6. Deliverables

The expected results will be a technical report of between 20-25 pages delivered to the highest professional standards. The completed report should also include an executive summary (maximum 3-pages) that should allow for easy digestion by ACP policy makers of the most salient issues.

7. References

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