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# Policies at the End of the Global Value Chain Rainbow

WHAT HAS THE WORLD BANK DISCOVERED?

 Xiaolun Sun and Shahid Yusuf

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## Abstract

The concept of global value chains (GVCs) has become a workhorse of trade analytics ever since it was identified around the turn of the century. By showing empirically how value addition is distributed across trading economies, it provides a better handle on the contribution of each country as goods crisscross international borders in the production process. The concept was quickly adopted by the World Bank Group—and other international financial institutions (IFIs)—and has become a fixture of country diagnostics. In fact, the disruption caused by the COVID-19 shock made GVCs something of a cause célèbre. But this paper argues that conceptual attractions aside, the use of GVCs for analytic purposes has not enlarged the policy toolkit, expanded the spectrum of usable policies, or enhanced their efficacy. Especially in low- and lower-middle-income countries, policymakers are no better equipped to promote development export-led or other. Based on its dealings with four countries—Bangladesh, Côte d’Ivoire, Ethiopia, and Vietnam—each of which is participating in one or multiple GVCs, this paper shows that the World Bank’s recommendations are no different from ones that were the norm in pre-GVC times. To paraphrase Robert Solow, we see GVCs everywhere except in the policy menu. Implementing conventional policies more effectively is what counts.

## **Policies at the End of the Global Value Chain Rainbow: What has the World Bank Discovered?**

**Xiaolun Sun**

*Senior Evaluation Officer, Independent Evaluation Group of the World Bank Group*

**Shahid Yusuf**

*Chief Economist, Growth Dialogue; Non-Resident Fellow, Center for Global Development;  
and Research Associate, GW Institute of Korean Studies*

The views expressed in the paper are those of the authors and not those of the World Bank Group.

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### **CENTER FOR GLOBAL DEVELOPMENT**

2055 L Street, NW Fifth Floor  
Washington, DC 20036

1 Abbey Gardens  
Great College Street  
London  
SW1P 3SE

[www.cgdev.org](http://www.cgdev.org)

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## Introduction

The postwar liberalization of trade, which is intrinsic to globalization, has contributed immeasurably to development worldwide over more than five decades (Irwin 2019; Bhagwati 2004; Wolf 2004; Wacziarg and Welch 2008; and Greenaway et al 2002). With the volume of global trade increasing by 7.1 percent per annum between 1987 and 2007 and at a slower pace thereafter,<sup>1</sup> countries that nurtured tradables were able to exploit the opportunities offered by international markets to industrialize, expand resource-based activities, and grow their economies (Constantinescu et al 2015). Several countries in Asia and sub-Saharan Africa have also climbed on the bandwagon and benefitted from stronger trade winds, digitalization, and preferential trade agreements.<sup>2</sup> With export-led growth widely touted as the development recipe for all seasons, it has served as the focus of development policy ever since the four East Asian Tigers demonstrated that it could work. Then along came the concept of GVCs in 2001 and increasingly, the narrative of growth mediated by trade has assigned primacy to participation in GVCs.<sup>3</sup>

The rest of the paper is divided into six sections. Section 1 briefly examines the advent of the GVC concept, its rapid diffusion and embrace by the World Bank. Section 2 explores the emergence and GVC integration of export industries in four developing countries: Bangladesh, Côte d'Ivoire, Ethiopia, and Vietnam. Section 3 delves into structural change, employment, and productivity in the four countries induced in part by trade and FDI. Section 4 reviews the industrial and trade policies, which helped drive growth as well as the importance of geographical location. The World Bank's policy inputs and the degree to which they were guided by GVC analytics is the subject of section 5. And section 6 concludes with observations on whether and how the GVC framework has influenced development policy and measures recommended to increase the resilience of production networks.

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## 1. GVCs discovered and mainstreamed

The Ur article that launched the era of GVCs was published in 2001 by Hummels, Ishii and Yi. The trio drew attention to “the increasing interconnectedness of production processes in a vertical trading chain that stretches across many countries, with each country specializing in particular stages of a good’s production sequence.” Hummels et al characterized this process as “vertical specialization” and focused on specialization “involving those imported goods that are used as inputs to produce a country’s export goods.” In doing so they highlighted two features: one was that the “production sequence of a good involves at least two countries, and that, during this

- .....
- 1 Constantinescu et al (2015) estimate that the elasticity of trade to income was 2.2 in the high growth years but after 2007 it fell to 1.3 and on average, has hovered in that range since.
  - 2 Internet connectivity is advantageous particularly for trade in services (Herman and Oliver 2022). The contribution of preferential trade agreements to reform, trade flows and development are reviewed by Baccini (2019).
  - 3 GVCs now command an entire shelf of material. A small sample includes Mao (2022); World Bank (2020a); Taglioni and Winkler (2016); OECD (2019); WTO (2017, 2019, 2021); ADB (2021); McKinsey Global Institute (2019); Groningen Growth and Development Center (2023); and the numerous reports emanating from the Duke GVCs Initiative. These represent only the tip of the iceberg. <https://www.globalvaluechains.org>

sequence, the good-in-process crosses at least two international borders [and this] sequential production and back-and-forth aspect” is now the hallmark of global trade. This insight has been seized upon by the IFIs and others and now informs both analysis and policy making. For example, the *World Development Report 2020: Trading for Development in the Age of Global Value Chains* (World Bank 2020a) states “GVCs, especially complex ones, expanded faster than traditional trade. Although industries that rely heavily on imported primary inputs have always been big GVC players, it was high-technology manufacturing industries that drove GVC intensification... GVCs can reinforce the development benefits of traditional trade. They enable production and trading of intermediate goods, which are easier for less skilled labor to master. They boost productivity at different stages of production through specialization and economies of scale. They facilitate transfer of know-how thanks to customization of products and processes and long-term relationships between firms.”<sup>4</sup>

The WDR 2020 took stock of thinking within and beyond the World Bank on the importance of GVCs, which has been on the rise since the concept entered the mainstream. GVC analysis surfaced in World Bank publications in the late 2000s (Gereffi and Frederick 2010) and has gradually come to permeate the Bank’s country diagnostics. For example, several earlier World Bank corporate strategies began identifying integration into value chains as a priority. The *Agriculture Action Plan* (2010–20), prioritized linking farmers to markets and strengthening (domestic) value chains (World Bank 2009). The *World Bank Group Trade Strategy* supported trade competitiveness and diversification, trade facilitation, transport logistics, trade finance, as well as market access and international trade cooperation to connect producers with GVCs (World Bank 2011). IFC’s agribusiness and manufacturing ‘deep dives’ in 2018 adopted a value chain approach to identify interventions based on a client’s market maturity and economic complexity (IFC 2018a, 2018b). The 19th Replenishment of the International Development Association (IDA19) addressed the transformative potential of integration into GVCs (World Bank 2019).

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## 2. Seeking truth on development and on GVCs from facts

Although the Covid-19 pandemic exposed the vulnerabilities of some GVCs including the hyper fragmentation of production, over dependence on a few suppliers of key materials, thin errors of margin from lean inventory practices, and propagation of economic and other shocks, they remain firmly entrenched in developmental thinking. The questions to be asked are: Has the adoption of GVCs enlarged the World Bank’s policy toolkit, expanded the spectrum of usable policies, and enhanced their efficacy? Are policymakers better equipped to cope with the problems of development and improve the prospects of export-led growth now that they can use the language of

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4 Pahl et al (2022) and Pahl and Timmer (2020) find that participation in GVCs enhances the productivity of workers especially in manufacturing, but employment is largely unaffected.

GVCs and determine via I-O matrices, how value addition is shared among countries participating in a value chain? Relatedly, have countries and multinational corporations exposed to the shock administered by the Covid pandemic discerned ways of minimizing future vulnerabilities with the aid of the GVC framework that would not otherwise have come to light?

To answer these questions, we briefly review the policies and country circumstances responsible for the evolution of key tradables in four relatively fast-growing developing countries—Bangladesh, Côte d’Ivoire, Ethiopia, and Vietnam—and assess the significance of measures aimed at integrating with GVC to their success. The tradables examined are the production and processing of cocoa and coffee; of leather; of cut flowers; garments; and footwear. They were purposefully selected because agriculture and light manufacturing GVCs are comparatively more accessible to low and lower middle-income countries than more technology and capital-intensive products. The World Bank has been deeply engaged in economic dialogue and lending to these countries for decades. How the Bank’s policy advice has evolved with respect to GVC participation, is examined below.

Table 1 presents a few of the leading economic indicators situating the four countries and maps the selected industries into each. The balance of the section is devoted to: (i) identifying a country’s participation in a specific GVC, its evolution over time, and relevant development outcomes; (ii) decomposing the GVC into key tasks performed by different players within the country; and (iii) determining the factors and policies that were responsible for the country’s participation in a GVC.

**TABLE 1. Selected countries and industries**

	Bangladesh	Côte d’Ivoire	Ethiopia	Vietnam		
Population (million, 2019)	163	26	112	96		
GDP per capita (US\$, 2019)	1,856	2,286	858	2,715		
GDP growth (annual %, 2000–2019)	6.2	3.5	8.9	6.5		
Exports in GDP (% , 2019)	15.3	23.5	7.9	106.8		
	Apparel	Cocoa	Cut Flowers	Leather	Coffee	Footwear
Share in total exports (% , 2018)	87.1	38.8	9.6	2.2	9.7	8.5
Export CAGR (annual %, 2000–2018)	5.8	7.1	40.0	41.2	13.0	13.6

Source: OEC & WDI, October 2020.

Note: CAGR = compound annual growth rate.

Despite the difference in development context and geopolitics, the four countries share many common features in how they participate in agriculture and light manufacturing GVCs, and in the policies responsible for their export performance. The GVCs into which these countries have

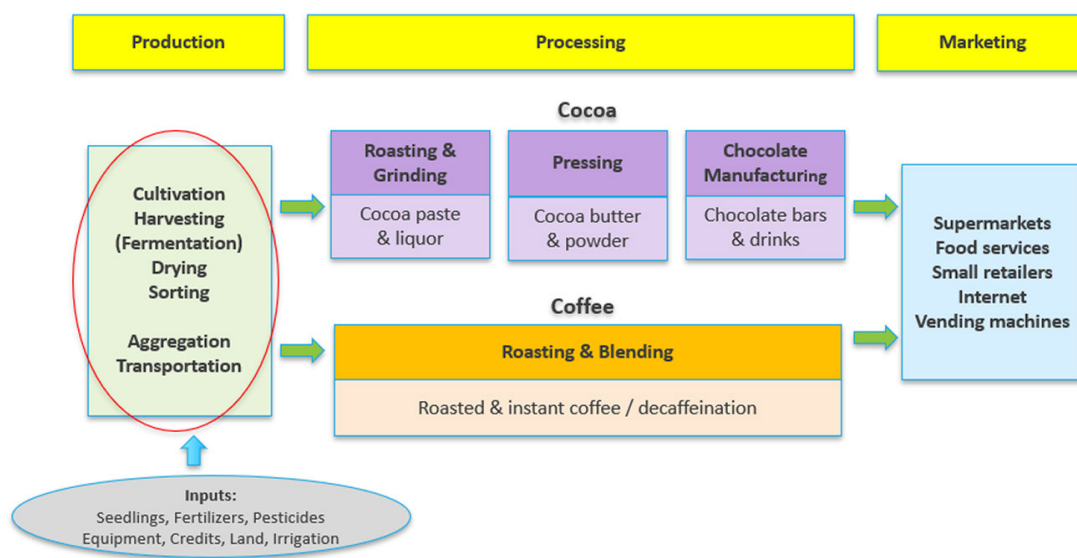
integrated are mature industries with well-developed production and supply networks. All these GVCs are buyer-driven chains controlled by lead firms from developed countries. Every country enjoyed one or more favorable conditions for integration into the specific GVCs, all four governments actively groomed the respective industries, promoted exports and FDI, which subsequently led to participation in GVCs.

## Producing and exporting cash crops

Côte d'Ivoire, Ethiopia, and Vietnam enjoy an ideal climate for cultivating cocoa, flowers, and coffee, which are exported and used in downstream production processes. Each has (forward) integrated with a GVC. The cocoa and coffee GVCs have many common characteristics and exemplify traditional, commodity-based trade networks that existed before they morphed into GVCs in the 1990s. By contrast, the cut flowers GVC linking African countries with European markets is relatively new and represents a modern, high value-added agriculture chain.

**Cocoa and Coffee GVCs.** The global cocoa and coffee industries are typical buyer-driven commodity chains of long standing where production takes place in developing countries around the equator, while processing and marketing is conducted in advanced economies. The main value adding activities are similar, although the cocoa value chain has a longer and more complex processing segment (Figure 1).<sup>5</sup> A small number of multinational companies and international trading houses such as large merchants and grinders (e.g., Barry Callebaut, Louis Dreyfus, and Cargill), roasters (e.g., Kraft, Melitta, Lavazza, and Nestlé), and commodity traders (e.g., Neumann Kaffee, ECOM, Mercom, and Olam) control both GVCs.

**FIGURE 1. Cocoa and coffee value chains**



5 Coffee is second only to petroleum as the most widely traded commodity.



Côte d'Ivoire and Vietnam participate in the cocoa and coffee GVCs, respectively, at the early production stage of the value chain. While Côte d'Ivoire has been the largest producer of cocoa since 1978, Vietnam was a minor player in the world coffee market until 1994<sup>6</sup> but grew rapidly into the second largest exporter of coffee in the early 2000s because of government land and resettlement policies among others. The great majority of cocoa and coffee farmers in the two countries are smallholders; small local businesses intermediate between farmers and local affiliates of multinationals and international trading houses, which arrange for export. Nearly all of Ivorian cocoa and 95 percent of Vietnamese coffee output is for export, and about 70 percent of Ivorian cocoa and over 90 percent of Vietnamese coffee exports are unprocessed (green) beans. Consequently, Côte d'Ivoire captures only about 10 percent of the total value added in the cocoa GVC, including through farming, taxation and local intermediaries.<sup>7</sup> Vietnam's (largely Robusta) coffee exports account for just two percent of the world coffee export value even though it supplies 20 percent of the coffee market by volume.<sup>8</sup>

Both Côte d'Ivoire and Vietnam have increased processing capacity. The Ivorian government set a target to process half of the cocoa production locally by 2020 and offered tax and other incentives to attract investments in cocoa grinding. Several processors responded by expanding their capacity. However, this has not yielded substantial gains for Côte d'Ivoire because cocoa processing is capital intensive and creates few jobs, while the expanded capacity has largely been a result of increasing vertical integration of the multinationals and subsidization through tax breaks.<sup>9</sup> Also, actual processing has not followed the expansion of the country's processing capacity, with more than 20 percent of the installed capacity unused (World Bank 2021). Some multinationals and local start-ups have started to produce finished chocolate products to serve the local and regional markets, although chocolate consumption in Africa remains low.<sup>10</sup> In Vietnam, a third of the multinational coffee roasters and international trading houses have established processing factories to produce soluble and roasted coffee. A few local integrated coffee companies, affiliated with SOEs, have entered the market of instant coffee. Currently, they mainly supply the domestic market. Exports of Vietnamese soluble and roasted coffee have begun rising in Southeast Asia and Nguyen Coffee and TNI King Coffee have begun selling in the United States.<sup>11</sup>

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6 A French priest started Vietnam down the road to coffee growing when he planted an Arabica tree in 1857. By the 1920s cultivation had spread to the Central Highlands, but coffee remained a minor product until its rapid uptake by small cultivators in the late 1980s and 1990s.

7 International Cocoa Initiative (2015).

8 It is estimated that the share of value captured by coffee producers has declined over time, from 20 percent in the 1970s to between 5 to 10 percent today, while the share of global buyers has increased from 50 to 75 percent. (Duke CGGC 2014).

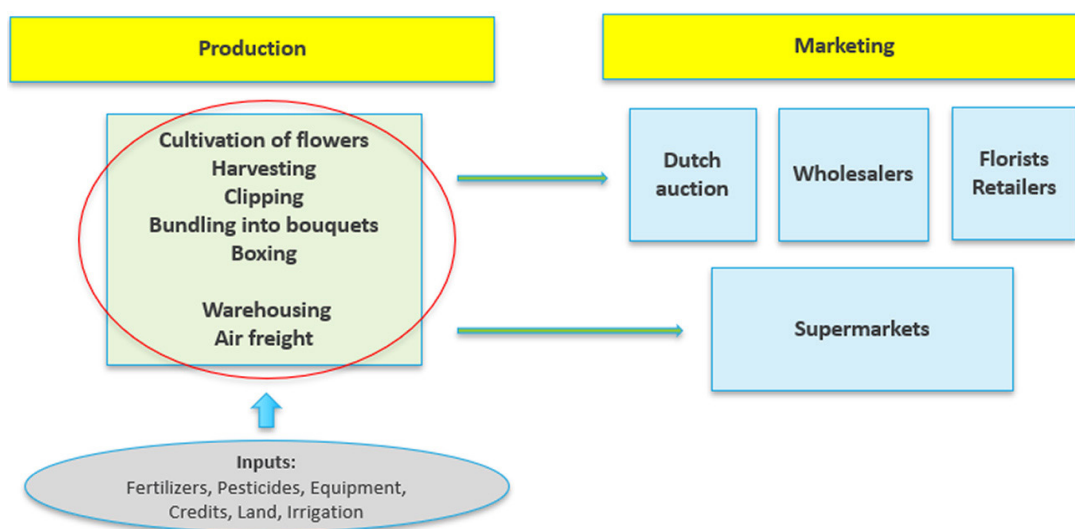
9 Four main grinders affiliated to multinationals process the Ivorian cocoa beans into derivative products to supply manufacturing plants of the same multinationals, as well as other chocolate makers and the pharmaceutical industry.

10 Local demand favors cocoa pralines, butter and powder and chocolate spread over chocolate bars. Cocoa flavor is also being infused by Ivorian firms into beer, liquors, and vinegar. <https://www.nytimes.com/2022/08/13/world/africa/ivory-coast-chocolate.html>

11 Roasted coffee loses its flavor within 3–5 months even in vacuum sealed bags, so roasting activities are typically located within the major end-markets. <https://intelligence.coffee/2022/07/value-vietnam-coffee-exports-increases/>

**Cut Flowers GVC.** The global floriculture trade is a relatively short, buyer-driven supply chain, where cut flowers are exported as final products, grown, harvested, clipped, bundled into bouquets, and boxed at the farm ready for shipment (Figure 2). Lead buyers, which include flower auction houses, wholesalers, and increasingly supermarkets, exercise control over the GVC through their sourcing requirements and stringent standards. No more than two to four days must elapse between when flowers leave the farm and when they are auctioned to buyers. Traditionally, flowers were produced near their consumers in Europe, Japan, and the United States. Since the 1980s, flower production has migrated to Africa and Latin America with the desirable geographical locations, where production and labor costs are lower and reliable air cargo services have been established.<sup>12</sup> The Netherlands, the global center for trade in cut flowers, has shifted attention from flower production to flower trading. Direct sales to large retailers and supermarkets are also on the rise.

**FIGURE 2. Cut flowers value chain**



Ethiopia’s floriculture industry emerged in the late 1990s and quickly became the fifth largest exporter of cut flowers in the world. In the 1980s, the state established two farms to produce summer flowers. These state-owned entities were short-lived but helped launch two entrepreneurial private firms in the early 1990s and the first consignment of Ethiopian roses was shipped to the Netherlands in 1997. Other local and foreign investors quickly followed. The number of flower firms climbed from nine in 2004 to 86 in 2007. In 2019, the industry hosted 72 firms, all but 15 of which were foreign owned. A significant number of the foreign firms were large operators

12 The shift to Africa from Europe was triggered by the higher greenhouse heating costs following the oil shocks of the 1970s and 1980s and more recently, in 2020–2021. Production gravitated to areas close to the equator (to maximize hours of sunshine), with the elevation that resulted in cool nighttime temperatures and with an adequate supply of both water and labor. Dutch investment in overseas farms has served as a driver of floriculture. <https://www.bloomberg.com/news/articles/2022-09-02/energy-crisis-empties-greenhouses-in-world-s-top-flower-producer#xj4y7vzkg>

of rose farms in Kenya, Uganda, and Zimbabwe, who helped Ethiopia integrate into the flower GVC through their established supplier and distribution network, including participation in the Netherlands auction system.<sup>13</sup>

From virtually nothing, Ethiopia has grown into a key player in the global market although the industry remains in the low and mid-grade floriculture segments. But flower production requires large capital investments, considerable technical expertise, flower handling facilities, a cold chain, and frequent airline connections to markets in Europe and the Mideast (provided by the state-owned Ethiopian Airlines, Africa's largest carrier).<sup>14</sup> The industry is highly concentrated, with 80 percent of output being roses, traded as cut flowers in the world market. Close to 90 percent of exports are funneled through the traditional supply chain via the auction floor in the Netherlands.

## Integration into light manufacturing GVCs

In pursuit of export-oriented industrialization, Bangladesh, Ethiopia, and Vietnam have integrated into garment and footwear GVCs. A defining characteristic of these low-tech labor-intensive industries is that barriers to entry as well as fixed costs are low, and they can utilize the plentiful supply of low-skilled workers. All three countries import many of the inputs that they process and their comparative advantage in the assembly of garments and footwear has facilitated their entry into GVCs. Ethiopia also participates in the leather GVC in parallel thanks to its large animal stock and traditional leather industry.

**Garment GVCs.** The global apparel industry is an archetypal buyer driven GVC where lead firms (such as Inditex, Fast Retailing, H&M, Shein, GAP, and Forever 21) control the higher value activities such as branding, design, marketing, and services, and outsource the manufacturing of inputs, components, and final products to a global network of suppliers (Figure 3).<sup>15</sup> Since the 1970s, there has been a decline in the share of brand manufacturers as lead firms and diminished vertical integration in the apparel industry. Instead, large retailers with established brands and distribution channels in end markets have become more important and govern the value chain through new intermediaries who

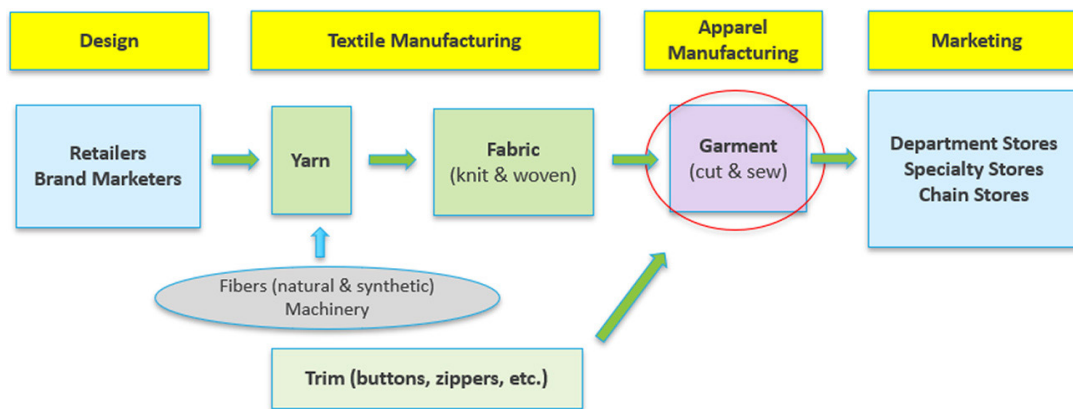
13 [https://apps.fas.usda.gov/newgainapi/api/report/downloadreportbyfilename?filename=The%20Netherlands%20Horticulture%20Market\\_The%20Hague\\_Netherlands\\_8-3-2016.pdf](https://apps.fas.usda.gov/newgainapi/api/report/downloadreportbyfilename?filename=The%20Netherlands%20Horticulture%20Market_The%20Hague_Netherlands_8-3-2016.pdf); Global sales of cut flowers amounted to \$29 billion in 2021 and are projected to reach \$48 billion by 2030. <https://www.globenewswire.com/en/news-release/2022/10/25/2540717/0/en/Global-Cut-Flowers-Market-to-Hit-Sales-of-47-965-5-Million-by-2030-Astute-Analytica.html>

14 Prior to Valentine's Day in 2022, Ethiopian Airlines flew 110 million cut roses to Europe. <https://aiph.org/floraculture/news/ethiopian-airlines-airlifts-110-million-roses-for-valentines-day/>

15 H&M and Fast Retailing rely on a global network of suppliers, Inditex uses many more suppliers in Spain (Galicia), while Shein sources its products exclusively from thousands of garment manufacturers close to its headquarters in Guangdong Province (now relocated to Singapore). While the others consolidate their products in country before shipping them out, Shein can transport goods from suppliers to its distribution facility within hours and ship them out via Yantian Port or the airports in Guangzhou and Hong Kong. <https://www.fashionnetwork.com/news/Inditex-increases-production-in-spain-by-13-compared-to-before-the-pandemic.1472578.html#fashionweek-paris-balenciaga>; [https://www.scmr.com/article/how\\_supply\\_chain\\_advantage\\_has\\_helped\\_shein\\_dominates\\_cross\\_border\\_e\\_co](https://www.scmr.com/article/how_supply_chain_advantage_has_helped_shein_dominates_cross_border_e_co)

are former producers for global buyers. These developing country-based intermediaries coordinate production-related activities that are carried out by decentralized, globally dispersed, and nominally independent firms specializing in specific tasks. Competition in the garment GVC is intense; costs are a major driver in investment and sourcing decisions.

**FIGURE 3. Apparel value chain**



The development of the garment industry in Bangladesh as an export-oriented sector began in the late 1970s through joint ventures (Swazan and Das 2022).<sup>16</sup> Until the late 1970s, Bangladesh had fewer than a dozen garment companies producing for the domestic market. The first 100 percent export-oriented garment factory was established in 1977 as a joint venture with Daewoo (then a large garment manufacturer) of South Korea.<sup>17</sup> Motivated by the Multi-Fibre Arrangement (MFA)<sup>18</sup> quota hopping and the abundant supply of labor, other manufacturers in Asia, mainly from Taiwan and Hong Kong, began to invest in and source from Bangladesh in the early 1980s. By 1994, the garment industry had grown to almost 2,000 factories; in 2022, Bangladesh was the third largest garment exporter in the world (after China and the EU).

Garment firms in Bangladesh have improved their position in the garment GVC by moving beyond direct production related activities. In 2005, two-thirds of the garment firms were mainly Cut, Make, and Trim (CMT) operations; in 2015, most of the firms were classified as Original Equipment Manufacturing (OEM) with firms capable of sourcing and financing inputs and providing all

<sup>16</sup> <https://www.bgmea.com.bd/page/AboutGarmentsIndustry>

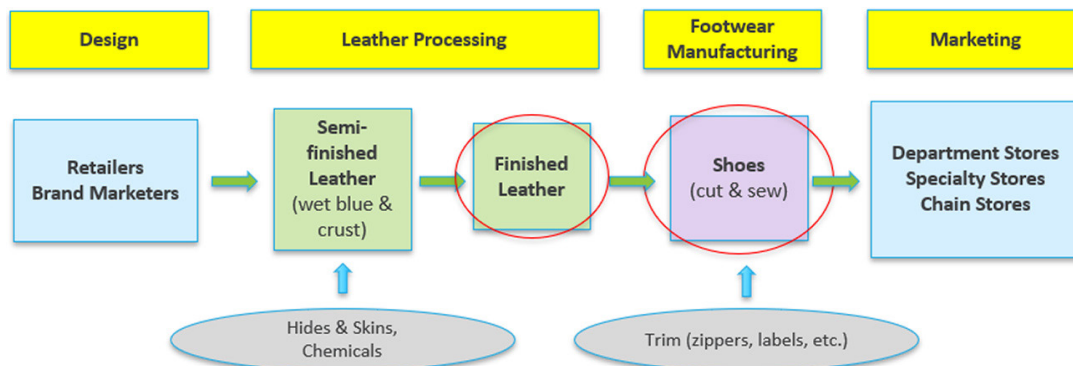
<sup>17</sup> Desh Garments (now the Desh Group, a conglomerate) the pioneering firm sent personnel to train in Korea. Later these trainees left to set up their own firms much like the departures from Shockley Computer and later from Fairchild Semiconductor.

<sup>18</sup> The MFA governed world trade in textiles and clothing from 1974 to 1994. The hallmark of MFA was quota restrictions on textiles and clothing imports into developed country markets from several developing countries. Its successor, the Agreement on Textiles and Clothing, expired on December 31, 2004.

production services.<sup>19</sup> There has also been an expansion in the local textile industry with a doubling of domestic value added of garment exports.<sup>20</sup> However, there has been limited progress in developing advanced capabilities in design and branding or upgrading to higher value apparel, although some large foreign owned firms in export processing zones work closely with buyers to design and develop products. Bangladesh garment exports are highly concentrated in the EU and USA markets, which absorbed 80 percent of its exports in 2019.<sup>21</sup>

**Leather and Footwear GVC.** Similar to garments, the global leather and footwear industry presents a classic example of a buyer driven GVC in which lead firms control pre and post-production activities such as R&D, design, marketing, logistics, and sales, and outsource the manufacturing process to a global network of suppliers (Figure 4). The triangular relationships, in which former suppliers become buyer agents managing the new suppliers with lower wages, are prominent features of the GVCs.<sup>22</sup> Without trade rules comparable to the MFA, the leather and footwear industry is highly fragmented with production scattered around the globe driven primarily by cost considerations. This is especially the case with footwear manufacturing, which is more labor-intensive than leather processing.

**FIGURE 4. Leather and footwear value chains**



The leather and footwear industry in Ethiopia has expanded significantly since the late 2000s aided by incentive induced FDI inflows. Ethiopia ranks the 7th in global livestock population and the 9th in raw hides and skins production. Under the *derg* (the ‘Council’ which ruled Ethiopia

19 Apparel firms are classified by the range of functions they perform and upgrade by moving from cut, make, and trim (CMT), to original equipment manufacturing (OEM), original design manufacturing (ODM), and original brand manufacturing (OBM).

20 Local sources meet about 80 percent of the garment industry’s requirements for accessories (e.g., thread, buttons, and labels) and the domestic textile sector provides 85–90 percent of the fabrics.

21 Bangladesh benefited from duty-free access to EU via the generalized scheme of preferences (GSP) and the *Everything But Arms initiative* but is not covered under the US GSP program and faces tariffs ranging from 0–32 percent for its RMG exports. Bangladesh is requesting that the US remove the tariff on garments made with American cotton. <https://www.newagebd.net/article/188475/bangladesh-seeks-zero-tariff-on-rmg-exports-to-us-at-6th-ticfa-meeting>

22 Japan and Italy were the major exporters in the 1970s. As their labor costs soared, the industry moved to Brazil, Korea, and Taiwan in the 1980s, and to China, Indonesia and subsequently Vietnam in the 1990s.

from 1974 to 1987), all tanneries and manufacturers of leather goods were nationalized and from the 1980s exports of hides and skins were banned to secure supplies for nationalized factories (Grumiller and Raza 2019). In the late 1990s, the government adopted market-oriented policies and in 2004, it lifted the ban on FDI. Exports of finished leather and leather footwear increased about sixfold between 2007 and 2017. Foreign owned companies account for 73 and 87 percent, respectively, of leather and footwear exports in 2017/18. Chinese investors dominate both sectors. In 2017, 82 percent of the finished leather was exported to China, often to the parent companies of the Ethiopian tanneries. Chinese footwear manufacturers introduced Ethiopian footwear to the US markets, which accounted for 64 percent Ethiopian exports. China was also the second biggest importer of Ethiopian shoes (26 percent). These foreign and some local producers have located in the industrial parks, two of which are privately owned, both by Chinese footwear manufacturers (Newman and Page 2017).

With the help of comprehensive industrial policies and the introduction of an export tax on semi-processed product, Ethiopia's leather sector upgraded to the production and export of higher value-added finished leather products. The 150 percent export tax was imposed during 2008–2020 to raise the local content and to promote local manufacturing. It caused an immediate decline in leather exports as traditional buyers of raw hides and semi-processed leather from Europe sharply reduced their orders. However, exports recovered quickly as the end markets shifted to Asia and demand from Southeast Asian manufacturers increased. But the leather and footwear sector has been slow to improve quality and variety of products. While foreign investors were attracted by Ethiopia's leather supply initially, all footwear manufacturers must import leather from abroad because local processing capability and leather quality cannot meet their production needs.

Vietnam began exporting footwear in 1992, mostly to Eastern Europe, and has become the world's second biggest footwear exporter with a 10 percent share of global exports (2021).<sup>23</sup> FDI has been the driving force behind this growth with companies such as Nike and Adidas increasingly relying on their Vietnamese factories.<sup>24</sup> The Vietnam Leather, Footwear and Handbag Association counted almost 2,200 members, of which about 30 percent were foreign owned companies, mainly investors from Korea, Taiwan and now China.<sup>25</sup> Between 2003 and 2015, the share of FDI enterprises in Vietnam's footwear exports grew from 49 percent to 80 percent (Lan and Hong 2017). Due to limited

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23 <https://vir.com.vn/vietnam-accounts-for-10-per-cent-of-global-footwear-exports-89176.html>. Vietnam has overtaken China as the largest exporter in the canvas shoes category.

24 <https://www.globenewswire.com/en/news-release/2022/09/07/2511419/28124/en/Vietnam-Footwear-Manufacturing-Industry-Report-2022-Development-Environment-Supply-and-Demand-Import-and-Export-2017-2022-Market-Competition-Major-Brands-Outlook-2021-2031.html>

25 Most of the Korean and Taiwanese footwear investors in Vietnam are former suppliers to American and European lead firms. Investment from China to Vietnam because of the U.S.-China trade war accounts for a large part of the increase in leather exports from Vietnam since 2017. <http://www.lefaso.org.vn/default.aspx?ZID1=516&ID1=2&ID8=5382>

domestic production of semi-finished products,<sup>26</sup> Vietnam's footwear sector focuses on final assembly in the form of export processing—importing of intermediate inputs for further upgrading and exporting—with over 95 percent of the firms clustered in the economic zones near the two major ports. Foreign owned subsidiaries of international firms are vertically integrated and rely on the parent companies for product design, delivery of inputs, as well as the sale and distribution of the produced footwear.

Only a minority of Vietnamese firms are capable of manufacturing for large brands with stable orders, but locally owned enterprises have begun to carve out a space. Some local firms produce goods under contract for international footwear companies. These firms either receive all required inputs from the buying company or procure inputs from buyer- approved suppliers. Among the Vietnamese manufacturers producing from their own designs, two thirds sell the finished products to traders as unbranded products, including exports to some emerging economies. SOEs, which retain nine percent of the market share, represent the larger domestic firms.

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### 3. Impact of trade and FDI on structural change, jobs, and productivity

Public policies that have incentivized FDI and local entrepreneurship have contributed to export growth and job creation in the four countries. All six industries in the four countries achieved strong export growth over the last 20 years (Figure 5). Jobs statistics disaggregated by industry are scarce but available data show significant job creation in the six industries. In Côte d'Ivoire and Vietnam, as the area under cocoa and coffee cultivation expanded (from 260,000 hectares in 1961 to 2.5 million hectares in 2012 in Côte d'Ivoire and from 30,000 hectares in the mid-1980s to 687,000 hectares in 2019 in Vietnam), the number of people engaged in cocoa/coffee production increased dramatically. Today, about four million people in Côte d'Ivoire (a quarter of the population) have income that is directly or indirectly linked to the cocoa sector. Vietnam's coffee industry employs nearly two million workers. In Ethiopia, employment in the floriculture sector grew from virtually zero to over 50,000 workers in a decade. Similarly, the emergence and expansion of export-oriented garment and footwear industries translated directly into more manufacturing jobs: employment in Bangladeshi garment sector increased fivefold during 2003–10. By 2015, it had risen to 4 million and continued increasing at a 1 percent per annum rate through 2020.<sup>27</sup> Employment has more than doubled in the Ethiopian footwear industry since 2010 and it rose by 70 percent in the Vietnamese

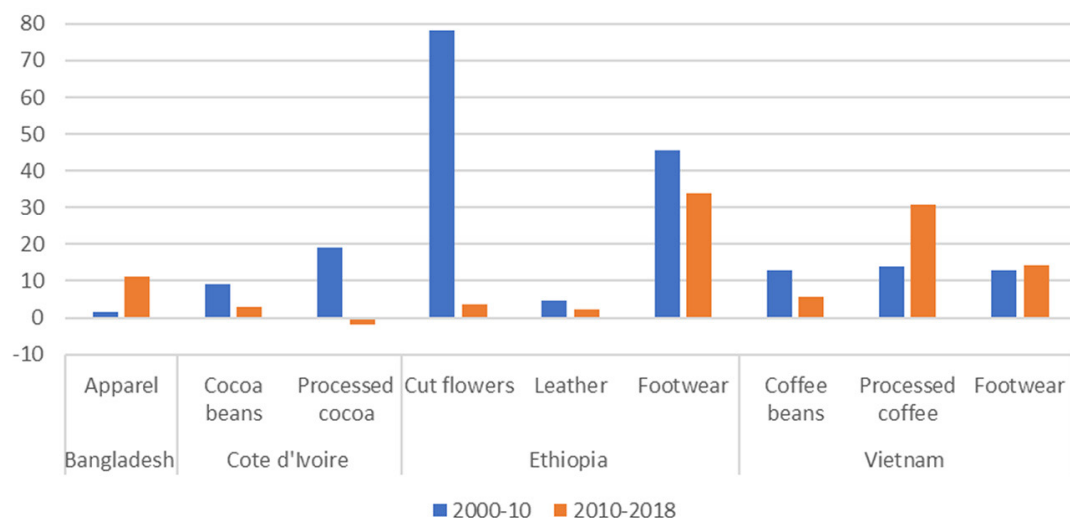
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26 More than 60 percent of the sector's total import value in 2017 was raw leather. <https://www.linkedin.com/pulse/footloose-industry-future-footwear-production-vietnam-stephan-ulrich>

27 The more than 4400 Bangladeshi firms employed over 4.2 million workers in 2020, three fourths of the manufacturing workforce, and garments generate 84 percent of export earnings. Swazan and Das (2022). <https://www.fibre2fashion.com/news/apparel-news/employment-growth-in-bangladesh-rmg-sector-1-07-a-year-study-272853-newsdetails.htm>; <https://dekkkoisho.com/blog/bangladesh-garment-industry-statistics-trends-analysis/>

footwear sub sector during 2010–16 (UNIDO 2020). The employment benefits accrued mainly to women and youth.

**FIGURE 5. Average annual export growth of case study industries, 2000–2018 (%)**



Source: IEG based on the Observatory Economic Complexity (OEC) data.

There is also evidence of increased labor productivity from learning, technology transfer and scale economies. In Vietnam, the increased value added per production facility in the footwear industry took place as the average number of employees per establishment decreased, indicating higher output per worker. Similarly, the leading garment manufacturers in Bangladesh have diversified into higher value products such as outerwear and lingerie, have increased their use of synthetic material, and offer new washes and laser finishes (McKinsey 2021).<sup>28</sup> Exports of ready-made garments expanded at an annual rate of 7 percent from \$14.6 billion in 2011 to \$33.1 billion in 2019 and because of automation, productivity improved and translated into higher wages.<sup>29</sup> Although the average yield of cocoa farms in Côte d'Ivoire has only risen slightly over time and remains low, labor productivity of coffee farms in Vietnam improved by 20–70 percent between 2014–2016/17, contributing to coffee yield that is world's highest.

Integration through trade into light manufacturing GVCs has facilitated structural transformation. The participation of Bangladesh based firms in the garment GVCs accelerated the transition from commodity (e.g., tea and jute processing) to exports of light manufactures, resulting in sustained growth. As the weight of agriculture value added in GDP declined from 30.5 percent in 1990 to 12.7 percent in 2019, that of manufacturing grew from 13 percent to 21 percent in 2019. The garment

28 Gu et al (2021) find that a 25 percent increase in the level of technology results in a 3 percent improvement in profits per worker in the textile industry. <https://blogs.worldbank.org/endpovertyinsouthasia/shifting-gears-propel-bangladeshs-growth-engine>

29 The average capital stock per worker grew by 15 percent during 2006–12 and investments in capital have increased substantially since. <https://www.orfonline.org/expert-speak/perils-of-bangladeshs-rmg-driven-export-sector/>



industry contributed strongly to structural transformation by creating industry jobs, which accounted for 74 percent of the shift out of agriculture between 2003–2016. Vietnam’s integration into the footwear GVC has stimulated growth and diffused product and process technologies. As the share of manufacture in total exports grew from 42.6 percent in 2000 to 84.5 percent in 2019, the economic structure changed, with agriculture’s share shrinking to 12 percent of GDP in 2019 from about 31 percent in 1990. A similar transformation has yet to occur in Ethiopia, which embarked on its industrialization process in the 2010s. Manufacturing contributed only 6 percent to Ethiopian GDP in 2019, the same as in 2000, while its share in total exports between 2000 and 2021 was unchanged at 9 percent. Finally, in Côte d’Ivoire, the gradual shift of the economy out of agriculture mainly to services (32.5 percent of GDP to 20.7 percent during 1990–2019) has been accompanied by a retreat of the manufacturing sector (from 17.5 percent to 11.8 percent of GDP). Consequently, as real GDP per capita doubled in Bangladesh and Ethiopia and nearly quadrupled in Vietnam between 1990 and 2019, it increased by only 15 percent in Côte d’Ivoire.

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## 4. Drivers of success—location and industrial and trade policies

Geographical and climatic conditions were some of the preconditions for the successful development of these industries. Climate gave Côte d’Ivoire, Ethiopia, and Vietnam a natural advantage in cocoa,<sup>30</sup> flowers, and coffee production, respectively, and rising world prices stimulated growth. Vietnam’s location in the Southeast Asian region, adjacent to China (the principal source of inputs), and economic reforms initiated in 1986 (DoiMoi) attracted leading footwear producers in the region. In addition, the garment industry in Bangladesh benefited from the MFA quota system—a benefit that will expire in 2026 once it ceases to be classified as a least developed country.

To exploit their natural advantages, in each country, governments deployed a range of conventional and well tested policies to good effect. Some policy support dated back to the 1970s such as elimination of foreign investment ceilings in Bangladesh and migration and land policies in Côte d’Ivoire. Others were introduced more recently (e.g., industrial policies introduced by Ethiopia in the 2010s borrowing from the East Asian playbook; Oqubay 2015) based on learning from the three decades long performance of fast-growing economies. There is nonetheless some convergence in policy actions across countries and industries (Box 1). Supportive policies have focused on FDI and efforts to promote private investment, improving access to finance and land, tariff reduction, customs simplification, and transport infrastructure (Table 2). In most cases, government support was provided as special incentives to exporting companies in targeted sectors.

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<sup>30</sup> Cocoa cultivation was first undertaken in Central America many thousands of years ago. The word chocolate is derived from the Nahuatl *chocolatl* meaning hot water. However, Central and South American countries have been largely displaced by African and Southeast Asian ones. Only Ecuador with a 7 percent share of production in 2021/22 and Brazil with 4 percent, remain in the running. <https://www.kakaoplattform.ch/about-cocoa/cocoa-facts-and-figures>

## **BOX 1. Government support for the selected industries**

In Bangladesh, the government eliminated the limits on foreign investment and simplified investment approvals. For garment exporting companies, the government was liberal in granting licenses and modified the bonded warehouse policy to allow duty-free importation of machinery, fabric, and accessories, and introduced the back-to-back letter of credit, which removed the need for working capital and foreign exchange.

In Côte d'Ivoire, the post-conflict government set up the Coffee-Cocoa Council with representation of all stakeholders to regulate cocoa production and marketing, including margins and export quotas, and to stabilize prices through forward sales and pegging of producer price to world price. It set a target of processing half of the cocoa production locally and reintroduced a differentiated export tax with reduced rates for processed beans as well as a specific window for export rights targeted at cocoa processors.

In Ethiopia, the government granted flowers firms land with adequate water supply for long periods at highly attractive rates, low interest loans with the project itself as collateral, a five-year tax holiday, the elimination of tariffs on imported capital equipment, and an easing of regulations on import of pesticides and fertilizer. The firms also benefited from the cold storage facilities at the state-owned Bole International Airport and subsidized airfreight via Ethiopian Airlines. For exporting companies in leather industry, the government offered a comprehensive range of industrial policies that included income tax exemptions, exemption from customs duties on capital goods and other inputs, exemption from export taxes, loans at lower rates for longer periods, export guarantees, investment in infrastructure and integrated agro-industrial parks, and various services provided by the Leather Industry Development Institute such as training, consultancy, investment promotion, and public and private coordination.

In Vietnam, the government promoted coffee growing through land reforms and the creation of 225 New Economic Zones in the coffee-growing region. The state invested heavily in seedling research and irrigation infrastructure to support coffee farmers. While state-owned farms have been gradually redistributed, the umbrella company under the Ministry of Agriculture and Rural Development (Vinacafe) continues to play a role in providing credit, fertilizer, seedling, irrigation, and technical training. The government has launched several initiatives to improve the quality and sustainability of coffee. For export-oriented footwear (and other) manufacturers, Vietnam's deeper integration into the world economy through many bilateral and multilateral free trade agreements and joining the WTO was critical. The government offered a full range of favorable policies regarding regulatory procedures, land access, foreign exchange, trade, and taxation, and invested heavily in infrastructure (transport and energy) and industrial zones.

*Source: World Bank Group reports (in References).*

All four countries strived to develop priority industries, increase exports, and create jobs, but integration into GVCs was never an explicit objective. It was the combination of favorable external conditions and active governments support that attracted lead global firms to these countries. By locating parts of their production facilities and/or cash crop sourcing platforms in these countries, foreign investors drew local industries into pre-existing GVCs. This enhanced productive capacities, increased exports, and created new jobs. It also offered the potential for local firms to upgrade and for the economy to transform. As its export footprint expanded, Bangladesh, for example, developed a robust and diversified textile industry and has begun diversifying into pharmaceuticals, bicycles, and seafood. Vietnam managed with the help of trade and industrial policies to diversify beyond footwear into electronics, garments, and other products, while also growing its exports of coffee and other agricultural products thereby transforming one of the world’s poorest countries into a middle-income export powerhouse in just 25 years.

**TABLE 2. Policy and other support for integration into GVCs**

Drivers of GVC Participation	Bangladesh	Côte d’Ivoire	Ethiopia		Vietnam	
	Garment	Cocoa	Flowers	Leather	Coffee	Footwear
<b>Endowment—to remedy scarce capital and skills</b>						
Investment climate						x
FDI	x	x—processing	x	x		x
Access to finance	x		x	x		
Worker skills						
<b>Location—to compensate for remote location</b>						
Customs	x		x	x		x
Roads & ports	x	x	x	x	x	x
Logistics			x			
ICT connectivity						
<b>Markets—to overcome small domestic markets</b>						
Free trade agreements						x
Domestic liberalization					x	x
<b>Institutions—to strengthen rule of law &amp; safeguards</b>						
Product standards						
Working conditions						
Environmental protection						
<b>Special Economic Zones</b>	x			x		x

Source: Reports of the World Bank Group and others.

Note: x = important government support for the industry to integrate into the GVC.

In Bangladesh, Ethiopia and Vietnam, governments actively utilized special economic zones (SEZs) to overcome key constraints. For example, the government’s Bangladesh Export Processing Zone Authority (BEPZA)<sup>31</sup> established in 1980 provided serviced land and tailored infrastructure services

31 Two other agencies with similar objectives are the Bangladesh Economic Zones Authority (BEZA) and the Bangladesh Hi-Tech Park Authority (BHTPA), both created by the BEZA Act of 2010. World Bank (2018).

thereby removing a serious impediment to business development. The export processing zones (EPZs) attracted mainly garment investments and enabled the development of a robust, export-oriented apparel industry. Starting in 2010, the government began to move away from the EPZ model, instead it sought more private capital and expertise to build and operate the new zones.<sup>32</sup>

Relying on private developers was how Vietnam in 1991 and Ethiopia in 2007 embarked on their SEZ journey. Drawing on experiences from other countries (China and Singapore in particular), both Ethiopia and Vietnam embraced SEZs as a key component in their industrialization strategies and a vehicle for addressing inadequate infrastructure, cumbersome regulations, and administrative inefficiencies. In 2021, Vietnam had 260 industrial parks (IPs, public and private) spread across three industrial zones;<sup>33</sup> by 2019, Ethiopia had three private and three public IPs in operation, with 16 more at various stages of planning and construction (Tang 2022). As the industries began acquiring greater traction and presence in world markets, they began voluntarily and without government prompting to adhere to product, environmental and social standards required by foreign buyers. Although more needs to be done, improving the safety and working conditions in (Bangladeshi) garments and (Vietnamese) footwear factories is now viewed as necessary for the continued growth (McKinsey 2021). Similarly, Côte d'Ivoire is under increasing pressure from NGOs and commodity purchasers to address issues of child labor and deforestation in its cocoa plantations (Kroeger et al 2017). And the environmental degradation caused by coffee growing in Vietnam is receiving overdue attention (UNEP 2020).

Each of these countries must tackle several other constraints if they are to grow the current crop of activities and diversify into others. Manufacturing industries in Vietnam and Bangladesh need to more effectively harness digital and other technologies to enhance productivity and quality. Infrastructure bottlenecks and skill shortages need to be alleviated in all four. Spatial strategies must be devised to accommodate climate change and there are institutional reforms that would promote private and foreign investment and enhance allocative efficiency. This is policy commonplace by now but essential, nevertheless.

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## 5. World bank group policy support: was it through a GVC lens?

At the country level, World Bank analytics evolved over time to become increasingly specific and GVC focused. The most widely applied tool is the Trade Competitiveness Diagnostic, which has been used in more than 40 countries to analyze opportunities for export growth and diversification. The analytics have addressed integration into the global economy in general, with some discussing

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<sup>32</sup> The government plans to establish 100 economic zones by 2025.

<sup>33</sup> BW Industrial (2021). [https://bwindustrial.com/invest-in-vietnam/legal-and-business-environment/an-overview-of-vietnams-infrastructure-development-key-economic-zones/#:~:text=%5B5%20min%20read%5D%20As%20reported,\(Southern%20Key%20Economic%20Zones\)](https://bwindustrial.com/invest-in-vietnam/legal-and-business-environment/an-overview-of-vietnams-infrastructure-development-key-economic-zones/#:~:text=%5B5%20min%20read%5D%20As%20reported,(Southern%20Key%20Economic%20Zones))

joining global supply and value chains. More recently, the Bank started producing GVC diagnostics where sufficiently detailed trade data exist to offer specific guidance on how industries can join GVCs. Through benchmarking a country's GVC participation and diagnosing firm-level constraints, GVC Diagnostics shine a light on the linkages between industry players and offer policy recommendations for entering and upgrading within and across value chains.

A review of the Bank Group's policy guidance (and lending) for the four countries, which largely mirrors that offered by other IFIs, bilateral donors and retailed by the academic literature, however, offers scant evidence that the use of the GVC conceptual apparatus materially influenced policy advice or outcomes.<sup>34</sup> Policy recommendations are unchanged and do not extend beyond the usual suspects: most notably, trade (including facilitation), FDI and SEZ promotion policies, the desirability of upgrading and diversifying into higher value activities, infrastructure building and regulation, access to finance, actions that improve the domestic business environment, environmental protection, technical assistance to raise productivity, and measures to improve working conditions (Table 3). This policy advice has been the staple for decades and predates the infusion of GVCs into the vocabulary of development. In short, the attention lavished on GVCs has added some analytic icing but failed to enrich the policy dialogue.

The Bank Group's engagement in the three agriculture cases ranged from substantial for Côte d'Ivoire's cocoa to modest for coffee in Vietnam, to minimal for Ethiopia's cut flowers. However, fostering integration into GVCs was never an explicit objective—more of an afterthought once the concept was popularized—the focus was on agricultural production with the aim of inculcating better and sustainable farming practices. Around the world, most agriculture value chains are domestic. To enter the small number of agri-food GVCs, natural (and evolving) comparative advantage, strong global demand, supportive government policies, and FDI have served as determinants. Côte d'Ivoire and Vietnam integrated into cocoa and coffee GVCs, respectively, without significant external assistance, although the Ethiopia's cut flower industry benefitted from the technical assistance extended by the Netherlands.

Once in the GVCs, the main question facing governments and development partners was how the countries could capture more value from their participation in GVCs. By disaggregating the value created by and benefits accruing to each player in the GVC, the value chain analyses by the Bank Group provide additional information to policymakers. But, there is little if any evidence that this information has been instrumental in guiding the governments' decision-making process.

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34 Gereffi and Fernandez-Stark (2017) describe the GVC conceptual framework as follows. "The GVC framework allows one to understand how global industries are organized by examining the structure and dynamics of different actors involved in a given industry. In the very complex industry interactions of today's globalized economy, the GVC methodology... trace[s] the shifting patterns of global production, link[s] geographically dispersed activities and actors within a single industry and determine[s] the roles they play in developed and developing countries alike. The GVC framework focuses on the sequences of value-added activities within an industry, from conception to production, end use and beyond. It examines the job descriptions, technologies, standards, regulations, products, processes, and markets in specific industries and places, thus providing a holistic view of global industries both from the top down and the bottom up."

For example, a World Bank study delved into specific segments of the cocoa GVC and identified that Côte d'Ivoire had a competitive advantage in cocoa production but not processing (World Bank 2016). Nevertheless, the Ivorian government's industrial development strategies continued to seek increased domestic processing capacity and offered fiscal incentives to attract investments in cocoa grinding. The gains resulting from capacity expansion were meager at best. Short agriculture value chains, high capital investment required in agri-processing, and the need to perform the final value adding activities near consumers mainly in the high-income countries, have limited the opportunities for local industries to capture more value domestically or generate much employment for the domestic workforce.

Bank Group engagement in the three light manufacturing cases also varied considerably, but the advantages of adopting a GVC lens are hard to discern. In Bangladesh, the Bank supported trade reforms in the 1980s and 1990s to address policy distortions such as a highly protectionist trade regime characterized by quantitative restrictions, import licensing, and high nominal tariffs.<sup>35</sup> These measures were available to all exporting businesses, but garment firms benefited the most under MFA quota protection. After the industry had established itself in the garment GVC and become the most important sector in the economy, the Bank Group engaged directly with the industry, mainly through IFC investments and advisory services, including in partnership with buyers and international organizations, so that it could weather the phaseout of the MFA, a series of factory accidents in the 2000s, and growing environmental concerns. The World Bank provided analytical support that included value chain analyses (World Bank 2005a, 2005b, 2012b, 2014, and 2020b).

In Ethiopia, the Bank conducted one of its earliest value and supply chain analyses (World Bank 2006). It examined the skins-to-shoes value chain, among others, and identified leather as having even more development potential than apparel thanks to its greater labor-intensity. However, its recommendations were ignored. This was followed by a new value chain analysis of five industries including leather goods that was conducted with reference to the global leather footwear industry (World Bank 2012a). After Ethiopia's government incorporated SEZs in its Growth and Transformation Plan for 2010–2020,<sup>36</sup> the Bank and IFC provided comprehensive assistance in the 2010s to improve the industrial park infrastructure and governance, strengthen FDI policy and facilitation, and attract investors, mainly in garment and footwear industries. The Bank's GVC diagnostic in Ethiopia did not study leather goods (World Bank 2018).<sup>37</sup>

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35 Reforms entailed progress in removal of quantitative restrictions and reducing customs duties and export controls; the creation of export institutions such as the Duty Exemption and Drawback Office, the export credit guarantee system, and improving the special bonded warehouse system. In addition, a revolving fund was established to provide pre-shipment foreign exchange credit to exporters. All these are familiar instruments first tested back in the 1970s and 1980s.

36 <https://www.unido.org/api/opentext/documents/download/10694802/unido-file-10694802>

37 The World Bank focused on fresh fruits and vegetables as well as mobile phones because the leather sector had been scrutinized by other agencies active in Ethiopia.

**TABLE 3. World bank policy support for selected countries**

Drivers of GVC Participation	Bangladesh	Côte d'Ivoire	Ethiopia	Vietnam
	Garment	Cocoa	Cut Flowers and Leather Footwear	Coffee and Footwear
<b>Endowment—to remedy scarce capital and skills</b>				
FDI and Investment climate	IC, entrepreneurship	IC (licensing and inspection), SME	Investment policy, Public Private Consultative Forum, IC (taxation, regulation)	Vietnam Business Forum, Laws on Investment, Enterprise, Securities & Land, Labor Code, IC (licensing, taxation & land)
Access to finance	Financial sector liberalization, financial infrastructure, non-bank financial institutions, microfinance, financial inclusion, infrastructure finance, <b>financing for SMEs, export-oriented companies &amp; women in RMG, GTFP, WCSS</b>	Financial sector strategy, leasing institutions, financial inclusion framework, <b>SIB Cargill Risk Sharing Facility</b>	Financial infrastructure, Commodity Exchange linked warehouse receipt financing mechanism, credit information system, movable assets-based lending (laws, regulations, collateral registry), leasing, microfinance	Financial infrastructure, banking system, commercial banks serving SMEs & women entrepreneurs, private credit bureau, secured transactions reform, rural finance, <b>GTSFP (with Nike, Puma &amp; other brands), GTFP, financing for farmers &amp; value chain players</b>
<b>Location—to compensate for remote location</b>				
Customs	Customs bonded warehouses, duty exemption and drawback (1980s), customs administration		Customs regulatory reforms	Customs modernization (cancelled), trade information portal
Roads & ports	Inland waterways, bridges, rural & urban roads, Chittagong Port (1980s), road sector institutions	Roads, railway, transport sector governance, rural roads	Road network, road management, traffic management & road safety along key corridors	Road network (national roads, rural roads, expressway), road safety, climate resilience, IFC investment in container terminals serving HCMC and Hanoi, <b>Central Highlands connectivity</b>
Logistics services			Modjo Dry Port	Database
<b>Markets—to overcome small domestic markets</b>				
Trade liberalization	Trade reforms (1980s & 1990s), export policies (reducing anti-export bias), import liberalization, revolving fund for pre-shipment foreign exchange credit to private exporters, mainly ASA			Trade liberalization, WTO accession, implementation of WTOs commitments, WTO Accession roadmap for specific sectors, social and environmental impacts of WTO accession
Domestic liberalization	<b>Cocoa sector liberalization (1990s)</b>			Market reforms

TABLE 3. (Continued)

Drivers of GVC Participation	Bangladesh	Côte d'Ivoire	Ethiopia	Vietnam
	Garment	Cocoa	Cut Flowers and Leather Footwear	Coffee and Footwear
<b>Institutions—to strengthen rule of law &amp; safeguards</b>				
Working conditions	<b>Remediation financing program, Better Work program, occupational health and safety</b>	<b>Child labor (recent)</b>		<b>Better Work program</b>
Environmental protection	<b>Cleaner Production &amp; Environment Assessment, Partnership for Cleaner Textiles, carbon footprint in Chittagong Export Processing Zone</b>	<b>Protected areas, ASA (with World Cocoa Foundation and Climate Focus), green growth (DPF approved in March 2020)—sustainable cocoa</b>		<b>Resource efficiency (with international buyers), pollution in industrial zones; sustainable farming, certification &amp; traceability</b>
Special Economic Zones	New EZ model, scale up use of EZs, institutional capacity building, linking high-tech parks to universities		IP infrastructure & regulations, investment attraction, linkages of IP anchor firms to domestic SMEs	
<b>Other targeted support</b>	<b>ASA during the late stage of MFA to assess and improve RMG competitiveness. Three IFC investments targeting textile—RMG integration, higher value-added products, facilities and skills development, and climate change risk mitigation</b>	<b>Sector governance (continuously since the 1980s, incl. HIPC completion trigger); sector productivity: national agriculture research agency, markets &amp; technologies for smallholders, farmers cooperatives; Integrated cocoa value chain IPF (approved in June 2020), ASA</b>	<b>IFC loan to flower firm. livestock (pastoral livelihood &amp; food value chain), IFC investment &amp; advisory in slaughterhouse</b>	<b>Technologies for smallholders, farmer—agribusiness partnership, coffee rejuvenation, farmers organizations, post-harvest handling &amp; storage, warehouse management, IFC investment in coffee roaster, ASA on sector restructuring</b>

Source: World Bank Group reports.

Note: Bold italic indicates industry-specific interventions.

ASA: Advice and Analytics; RMG: Readymade garments.



By the time the GVC concept appeared in the Bank's country analytics (World Bank 2013, 2017, and 2019b), Vietnam's integration into the global economy was already well advanced. Sustained Bank Group support in the 1990s and 2000s helped improve the trade regime<sup>38</sup> and the overall business environment,<sup>39</sup> which contributed strongly to Vietnam's attractiveness to foreign investors and the emergence of export-oriented industries including footwear. The recent analytical work on Vietnam has highlighted the importance of trade-oriented connectivity to exploit the benefits of integration into GVCs but investment in transport and logistics was growing apace for some years to accommodate the surge in Vietnam's trade (World Bank 2019b). This was reflected in Vietnam's improved Logistics Performance ranking in 2018 compared to 2016. (Vietnam Briefing 2020).<sup>40</sup>

Although Bangladesh, Ethiopia, and Vietnam strengthened export performance under different circumstances, they followed the same path. The World Bank's advice, whether filtered through the GVC lens or not, hewed to the standard development recipe. All three countries exploited duty-free access to input and output markets, either as beneficiaries of umbrella preferential trade schemes or through negotiated free trade agreements and built SEZs—with advice from the World Bank Group and other agencies—to overcome policy, regulatory, and infrastructure constraints. The Bank's transport interventions helped improve domestic mobility, reduce transport time and cost, and facilitate trade, benefiting all industries. Likewise, the Bank Group's energy sector interventions were extensive and widened access to electricity in the four countries, which was critical for the light manufacturing industries. Finally, the Bank Group's support to the banking sector in the four countries made finance more accessible to businesses.

These measures were designed to attract lead foreign investors, who relocated some of their manufacturing facilities to the three countries. All three governments provided strong policy and financial support to develop the FDI-led, export-oriented light manufacturing industries. The most consequential World Bank interventions in all three countries did not target garment and footwear (or any other) industries and did not exploit a GVC lens. Instead, the focus, grounded in conventional wisdom, was on how to assist countries improve policies and institutions that would incentivize private investors.<sup>41</sup>

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38 In the lead up to Vietnam's accession to the World Trade Organization, the Bank mobilized a large program—the first series of Poverty Reduction and Support Credits (PRSCs) between FY01-FY07 and parallel technical assistance—to assist the authorities to reduce tariffs, remove import controls, eliminate quantitative restrictions, and implement WTO commitments. After Vietnam joined the WTO in 2007, the Bank expanded its support across a wide reform agenda, including manufacturing exports, alignment with international standards, customs services, and FDI inflows.

39 IFC championed business environment reforms through the Mekong Private Sector Development Facility created in 1997. Two series of development policy lending since the early 2000s supported reforms in licensing, Enterprise Law, land, taxation, intellectual property rights, procurement, and other aspects of the business environment.

40 In 2021, Vietnam was in 39th place and third ranked among ASEAN countries.

<https://en.vietnamplus.vn/vietnam-ranks-third-in-logistics-performance-index-in-asean/205588.vnp>

41 An attempt to empirically establish a relationship between WBG support and GVC integration, affecting exports, domestic value added, labor productivity, and employment, was unsuccessful. The Bank Group's GVC portfolio was identified through a multi-stage keyword search process to capture support and to ease different constraints to GVC integration.

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## 6. Concluding observations

The GVC concept has given rise to a vast literature. The proponents are enthusiastic. Gereffi and Fernandez-Stark (2017) claim that “The global economy is increasingly structured around global value chains (GVCs). The evolution of GVCs has significant implications for global trade, production and employment and how developing country firms, producers and workers integrate into the global economy. This is particularly the case in sectors such as commodities, apparel, electronics, tourism, and business service outsourcing. GVCs link firms, workers and consumers around the world and often provide a stepping-stone for firms and workers in developing countries to participate in the global economy.” And Goldberg in her capacity as the World Bank’s chief economist (2019) remarked. “We found that GVC trade in the past 30 years has accelerated economic growth and reduced poverty greatly. It has enabled an unprecedented convergence: poor countries grew faster and began to catch up with richer countries. Productivity and incomes rose in countries that became integral to global value chains—China, Vietnam, and Bangladesh, among others. And the steepest declines in poverty occurred in precisely those countries... In contrast to “standard” trade carried out in anonymous markets, GVCs typically involve long-term firm-to-firm relationships. This “relational” nature of GVCs makes them a particularly powerful engine for growth, as they represent a natural vehicle for technology transfer.” But there are downsides, “the gains from GVC trade are being distributed unequally within and across countries...some workers, firms, and communities have been hurt by globalization as well as where environmental risks have arisen.”<sup>42</sup>

The GVC concept might represent a conceptual leap of sorts and it has undoubtedly triggered an avalanche of data rich reports and articles. But as noted above, GVCs have failed to augment the policy toolkit. What IFIs such as the World Bank recommend and what is available to policymakers are the very same instruments that have been utilized for several decades.<sup>43</sup> It is also discouraging to observe that the empirical work to date has not even significantly sharpened the tools that we have. Trade facilitation nostrums from decades back continue to be repeated with little elaboration. Measures to promote trade and industry are unchanged. And SEZs remain in favor despite mixed findings accumulating over five decades and a paucity of rigorous cost benefit analysis (Yusuf 2023).

The oft repeated concerns regarding the fragility of key GVCs that emerged following the onset of the Covid-19 pandemic have also prompted countries and MNCs to engage in actions that were well known in pre GVC times. The advantages of diversifying sources of supply to minimize the risk of hold-ups should a sole supplier or suppliers from a single country encounter difficulties were reinforced by the pandemic, but it has little to do with the existence of GVCs. Lean manufacturing, the obsession to cut costs and reduce inventories explains why the Covid supply crunch was so acute. They would have given rise to problems following the onset of the pandemic even if GVCs were

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42 <https://blogs.worldbank.org/developmenttalk/how-important-are-global-value-chains-development-read-new-wdr2020-draft-report-and>

43 For example, export incentives offered by the Korea authorities in the years preceding the discovery of GVCs were already exhaustive. <https://enforcement.trade.gov/esel/south-korea/korgen.htm>

unknown. The remedy, which is to build some slack in supply chains—Business 101—was studiously ignored in the single-minded pursuit of higher profits by MNCs. Reshoring some industries, nearshoring or friendshoring have also made the rounds in the past—especially reshoring—although the OECD (2021) notes that the policy induced case for doing so is weak as localizing chains could make them less efficient and less stable. The other two have gained prominence because of geopolitical tensions and the extreme concentration of certain manufacturing activities in China. Industrial policy, which is now paired with reshoring, has a long pedigree and after being pushed into the margins, has made a dramatic comeback (Hausmann 2023; Criscuolo and Lalanne 2023; Cherif et al. 2022).<sup>44</sup> Again, this is not because GVCs have opened our eyes to new policy options.

The analysis of value chains has informed us about where value accrues and how it is distributed across industries and countries—these findings are empirically valuable. However, instead of chasing the GVC rainbow, EMDEs need to focus on effectively implementing conventional trade, investment, infrastructure and institutional development policies. This would enlarge their gains from trade whether they are connected to GVCs or not.

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44 <https://www.cfr.org/background/industrial-policy-making-comeback>; <https://www.wsj.com/articles/subsidies-chips-china-state-aid-biden-11627565906>; <https://www.ft.com/content/98ee1141-46e9-4212-83b8-24c8bc4151e2>; <https://www.economist.com/special-report/2022/01/10/many-countries-are-seeing-a-revival-of-industrial-policy>

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