Regional Consultation on

Road to Bali: South Asian Priorities for the Ninth WTO Ministerial

Aid for Trade

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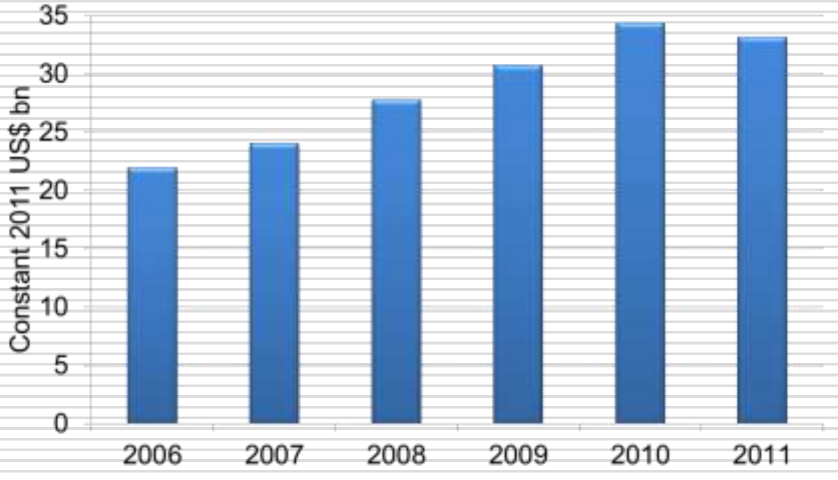
Background

- Aid for Trade (AfT)
  - Recognition that market access is not enough
  - Financial and TA to **enhance trading capacity**
  - **Specific trade purposes** that feature AfT
- AfT – **single most important** feature of DDA
- Donors' greater response to make trade components more prominent
- The regular review of the AfT activities (by the WTO) has ensured continued focus on AfT
  - Both donors and recipients are more serious about better designing, planning, and implementation

AfT Disbursed…



About 25% of Aid is now AfT

Types of AfT

- Six types of AfT according to the WTO
  - Using OECD database 4 broad groups: (1) trade-policy and regulation; (2) economic infrastructure; (3) productive capacity devt; (4) trade-related adjustment support
- One aim of AfT is to help adjustment
  - from tackling export shortfalls to capacity development for dealing with new trade measures
- Adjustment support for loss of trade preferences could be vital

Estimated loss of preference for selected SVEs

	Estimated Loss of exports due to Preference erosion (million US$)	Loss of exports as % merchandise exports
St Vincent & the Grenadines	**22**	**57.7**
St Lucia	30.5	42.2
Dominica	14.6	35.2
Sao Tome and Principe	1.1	28.8
Belize	32.7	12.3
Guyana	**69.3**	**11.8**
Mauritius	205.6	8.8
Fiji	55.5	8.2
St Kitts and Nevis	3	7.6
Vanuatu	1.9	5.2
Cape Verde	0.9	4.3
Jamaica	80.5	4.3
Barbados	18.4	4.2

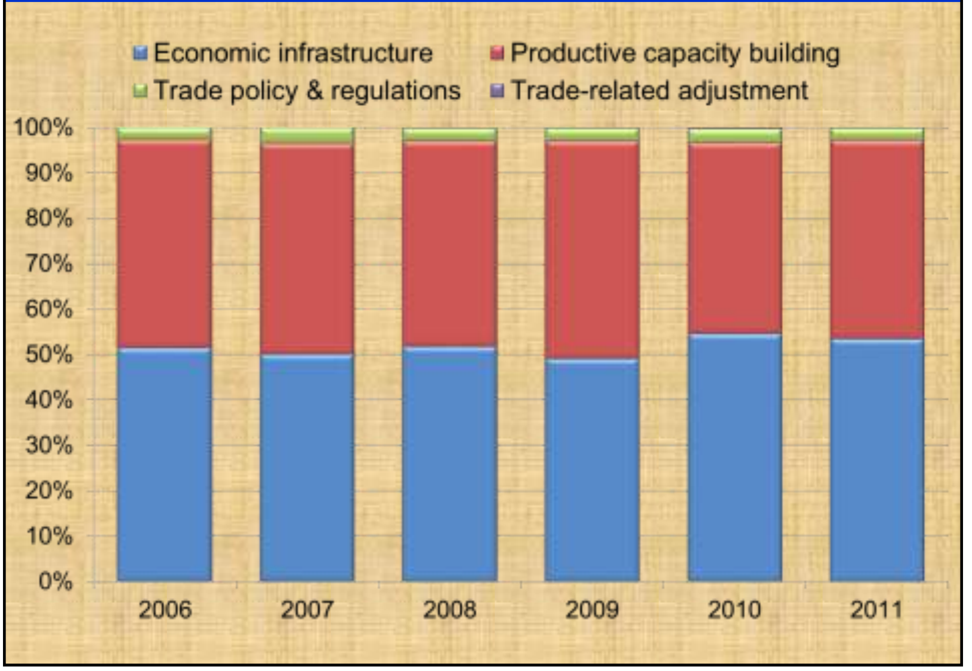
Adjustment support for loss of trade preferences could be vital for SVEs.

Trade Adjustment costs in LDCs

Most Exposed to Preference Loss: Prospective Export Falls from Preference Erosion

Agricultural products		**Non-Agricultural products**	
Country	% loss	Country	% loss
Malawi	-8.4	Lesotho	-12.2
Mozambique	-6.2	Madagascar	-5.0
Tanzania	-4.8	Senegal	-4.9
Congo, DR	-3.4	Guinea-Bissau	-3.2
Gambia	-2.8	Maldives	-2.5
Senegal	-2.8	Mozambique	-2.5
Angola	-2.6	Mauritania	-2.3
Zambia	-2.4	Gambia	-1.8
Mauritania	-1.6	Uganda	-1.0
Uganda	-1.1		
Niger	-1.1		
Togo	-1.0		

Aft Flows to by broad categories



Studying the effectiveness of AfT

- Two approaches – case specific and overall
  - WTO/OECD case stories – useful insights
  - Overall effectiveness (mostly rely on quantitative methods)
- The aid effectiveness literature is vast and complex with mixed evidence but not many empirical studies on AfT.
- Commonwealth Secretariat sponsored several empirical studies
- A theoretically consistent empirical framework to link AfT to export performance and other indicators, Controlling for other relevant factors
- Use of time series data across countries (**panel data**)
- Estimations are carried out for SVEs and SSA

Empirical Assessment

- More precisely, the empirical analysis examines:
  - a) Impact of **aid for trade facilitation** on the **cost of trading**

    Cost of trading - measured by the time and costs of importing and exporting, i.e. handling and transporting a 20-foot container to (or from) the port of departure (or entry)

    $$\ln(IC)^{z}_{it} = \alpha_i + \phi \ln(1 + A_{tf})_{it-1} + KZ_{it-1} + \gamma_t + \mu_{it}$$

    where *IC* is an investment climate indicator for country i, such as the cost of trading, *Atf* is aid for trade facilitation (in mln US$) lagged one year, α_i is country fixed-effects, γ_t are time effects and *Z* is a vector of other determinants of *IC*, ε and μ are the error terms.
  - b) Impact of **aid to economic infrastructure** and **aid to productive capacity** on **total exports**;

    $$X_{it} = \alpha_i + \gamma_1 Apc_{it-2} + \gamma_2 Ai_{it-2} + \gamma_3 MP_{it} + \gamma_4 p_{it} + \lambda_t + \varepsilon_{it}$$

    where *X* is the (log of) exports value in constant prices (country i, time t), *Apc* is (log of 1 +) aid disbursed to productive capacity and *Ai* is (log of 1 +) aid disbursed to economic infrastructure, MP is a market potential measure, and *p* is the level of prices (both in log); α_i country effects, λ_t estimation period effects.
  - c) Impact of **aid to sectoral productive capacity** on **sectoral exports**. $X_{ijt} = \alpha_{it} + \lambda_{jt} + \gamma_{ij} + \delta_1 Apc_{ijt-1} + \varepsilon_{ijt}$

    where *X* is the (log of) value of exports (for country *i*, sector *j* and time *t*), *Apc* is (log of 1 +) aid to productive capacity, α_{it} is country-year fixed effects, λ_{jt} is time-varying sector fixed effects, γ_{ij} is sector-country fixed effects.

Key findings

- Aid to trade facilitation (Atf) has significant **cost reducing effects**.
  - A $1 mln increase in Atf is associated with **2.5% - 5.4%** (i.e. US$15 to US$30) decrease in the cost of trading (handling and loading of a 20-foot container) of SSA. Larger effects for SVEs.
- Aid to economic infrastructure (**Ainfra)** is found to be **positively** associated with **SSA** and SVE **exports**
  - P**art of the beneficial effect of Ainfra** in SSA occurs through the facilitation of intra-SSA trade. Perhaps AfT has helped reduce trade barriers with neighbours.
  - For SSA, **aid to financial and business infrastructure** is found to have larger effects (than transport and storage and energy)
- However, aid to productive capacity fails to exert any positive and significant effects both for SVEs and SSA.

Global Value Chains and AfT

Findings from Banga (2013) UNCTAD, and also in Commonwealth THT

- Under GVCs, **increased X** are no longer closely linked to **higher VA**
- LDCs are either **'locked-in' at bottom** of GVCs or **'locked-out'**
- Distribution of **gains is biased towards upper end of GVCs**, dominated by mostly developed countries with competitive advantage in services like designing, branding, marketing, etc
- AfT needs to be shifted away from merely *increasing trade and reducing trading costs* to *enhancing the competitiveness of the countries* so that they can gain in **'net value-added'** terms.
- AfT needs to focus more on developing capacities rather than '*import facilitation'*

	Manufacturing exports as a share of exports of goods and services (%)			Manufacturing value added (% of GDP)		
	1980-89	1990-99	2000-11	1980-89	1990-99	2000-11
China	30	80	82	36	33	32
Brazil	41	47	42	33	20	17
India	45	57	44	16	16	15
Mexico	26	64	74	23	21	19
Korea, Rep.	82	79	77	28	27	28
Philippines	18	46	72	25	24	23

Source: Rashmi Banga (2013), *Global Value Chains: What Role for Aid for Trade? Commonwealth Trade Hot Topics*, issue 100, Commonwealth Secretariat, London

The Issue of Additionality

- Stiglitz argues that the increased flows of AfT cannot be called additional (as the original ODA commitment of 0.7% GNI is not fulfilled by developed countries.
- He argues, AfT financing may be skewed towards the preferences of donors. If this is the case, then **"without additionality, aid for trade is just another form of conditionality"**.
  - Stiglitz, J. and Charlton, A. (2013), *The Right to Trade: A Rethinking of the Aid for Trade Agenda*, Commonwealth Secretariat, London

Issues for Bali

- How to **ensure additionality** of AfT?
- Increasing trade-related **adjustment support** (also how to operationalize it?)
- Supporting **value chains to suit LDC interests** (also more AfT for services development)
- **Perceptions of AfT**: Donors versus recipient countries
- **Monitoring of AfT** remains donor driven
- **AfT flows from EMEs** are not captured
- **Local database** for monitoring AfT

Thank you.