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Background and Motivation

Aid for Trade has moved up both the aid and trade agendas. Several studies have described the rationale for AfT, but it is now time to move beyond the descriptive stage and analyse the needs and design its implementation. A key motivation behind the research presented in this paper is that there is a lack of good quantitative evidence on:

1. Actual AfT flows in-country;¹ and
2. The possible effects of AfT.²

This study is designed to provide an understanding of whether and how AfT can help developing countries trade and improve their economic performance. It also illustrates the scope and limitations of a quantitative approach towards AfT, and should be read in conjunction with a study of whether AfT flows can actually be measured (Turner, 2008).

The paper discusses the effects of AfT. There are two ways of defining the scope of this question. The first is to focus on the Aid for Trade initiative adopted by the WTO during the Doha negotiations. This now has legal status as a WTO agreement. Specifically, the Aid for Trade Task Force argued that developing countries ‘expect Aid-for-Trade to go well beyond the scope of the IF’ (WTO, 2006). The Integrated Framework (IF) performs trade diagnostics rather than supporting productive capacities or infrastructure. The Task Force identified six categories of AfT and builds upon the definitions used in the WTO/OECD trade-related and capacity building database:³

- Trade policy and regulations;
- Trade development;
- Trade-related infrastructure;
- Building productive capacity (including private sector development);
- Trade-related adjustment (including support for adjustment associated with changes in international trade regimes);
- Other trade-related needs.

On this definition, AfT contributes to the provision of governance public goods, such as trade rules (to help countries implement and benefit from multilateral trade liberalisation) and regional public goods, such as cross-border infrastructure facilities (to facilitate intra-regional trade). Such effects could be measured by volume of funds and the emergence of new cross-border initiatives such as corridor approaches.

However, this focuses on a different way of examining the effects of aid for trade

(lower case). This approach recognises that donor countries were already providing this form of aid long before the Aid for Trade (upper case) label was introduced. Therefore, we should be able to address whether aid for trade has any impact using historical data on trade-related aid, as collected by the OECD. (This is, of course, subject to the reliability of reporting by donors to the OECD.)

The paper is organised as follows. Section 2 examines how AfT is expected to affect trade, growth and economic performance more generally. Section 3 suggests an empirical framework and describes the data used to test the theoretical hypotheses. Section 4 provides new empirical results. Section 5 sets out the policy implications and suggests directions for future research.