

Evaluating Aid for Trade at National and Sub-regional Level

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Aid for Trade: Making Trade Effective for Development



Motivation

- Aid for Trade (AfT) is a (relatively) new “high level” campaign initiated by the WTO
- Trade can have a positive impact on economic development, but that is not certain
- Aim of AfT is to enable developing countries to benefit from trade
- Large AfT-funds are or should be raised

Principle Research Question

Which of the areas of the AfT agenda have a positive influence on economic growth through trade?

Structure of Presentation

(1) Aid for Trade

(2) Previous Studies

(3) Research Design

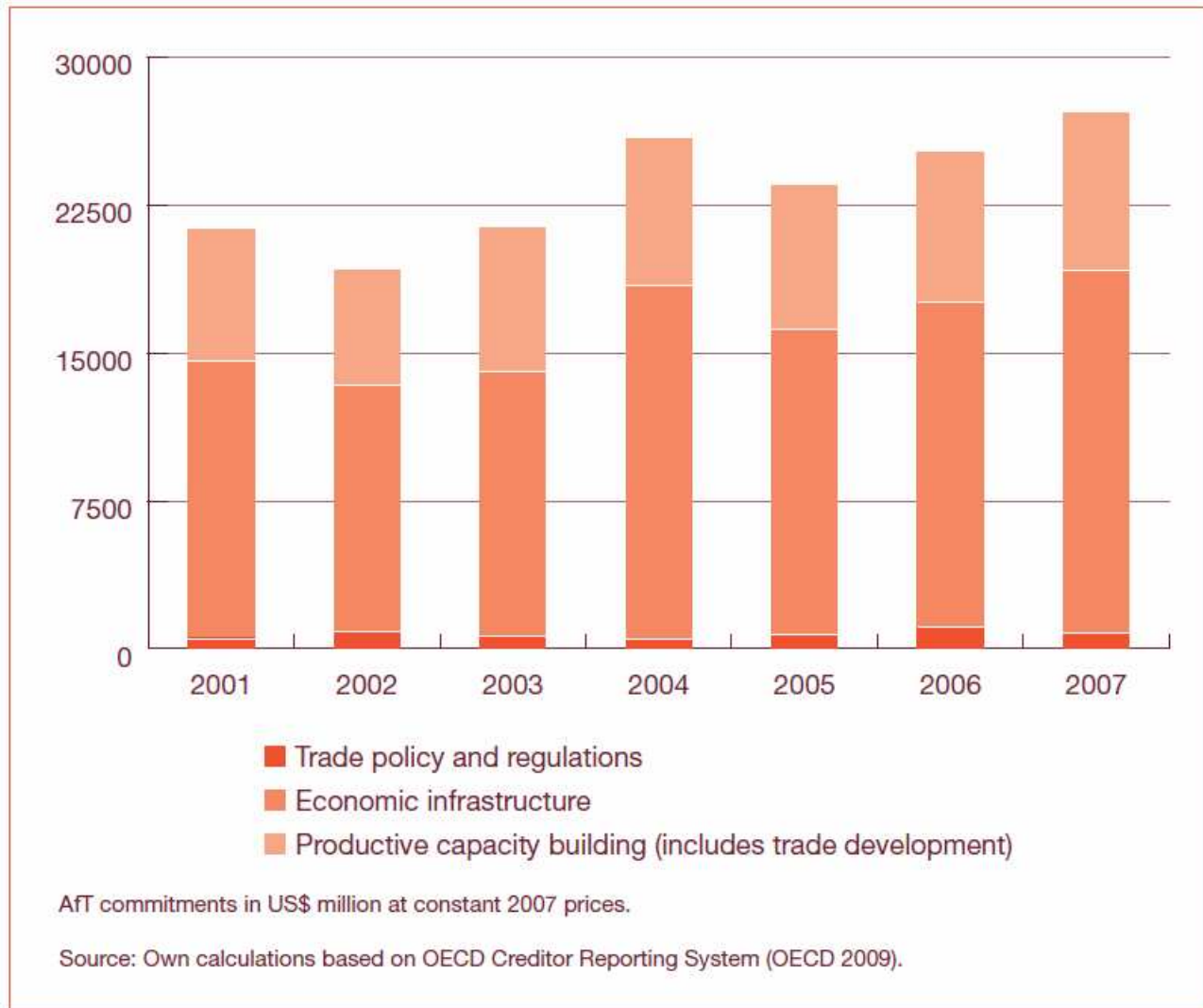
(4) Empirical Model and Results

(1) Aid for Trade

AfT Categories:

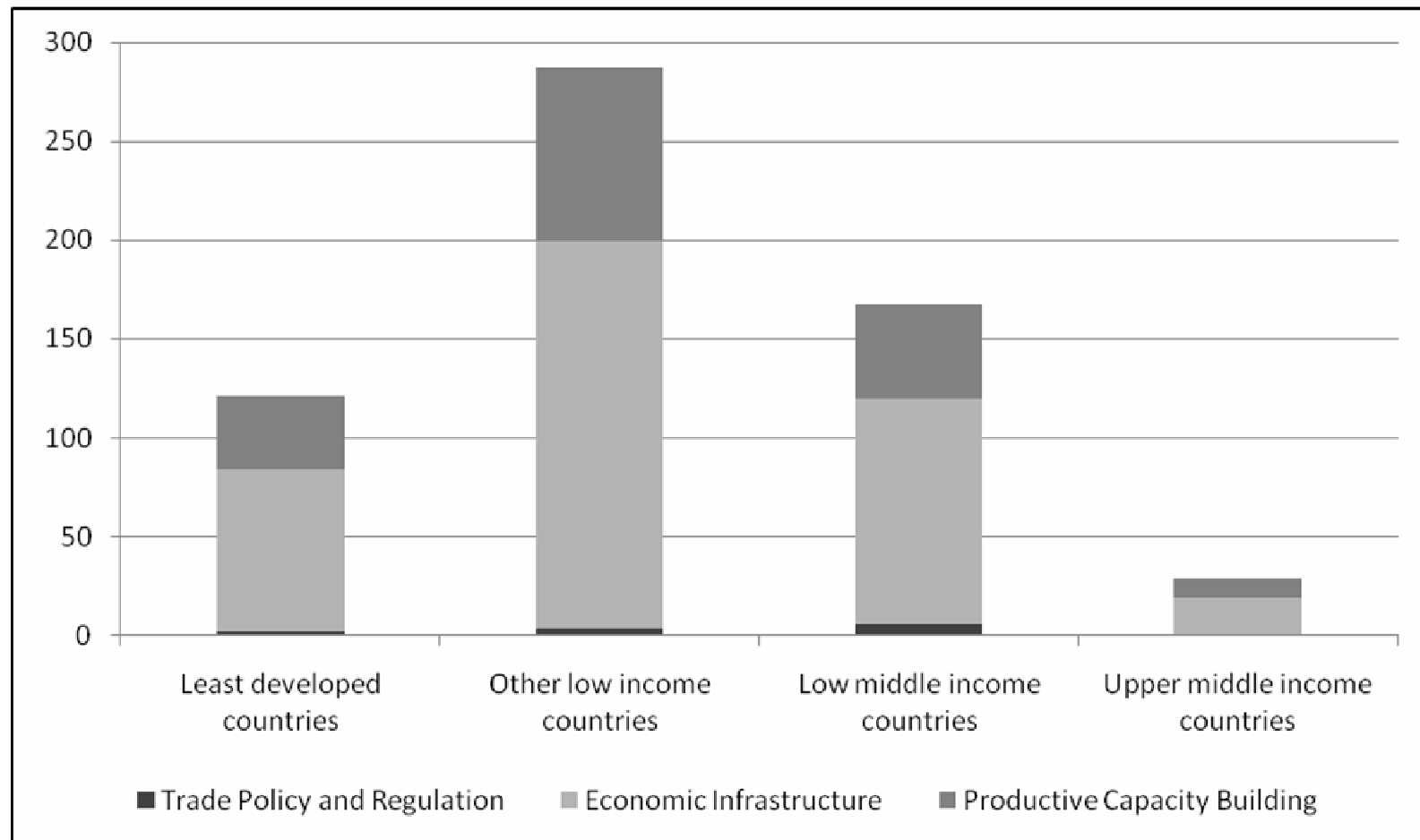
- **Trade Policy and Regulations**
- **Trade Development**
- **Trade-related Infrastructure**
- **Building Productive Capacity**
- **Trade-related Adjustment**

Aid for Trade Flows



Aid for Trade by major categories, 2001–2007

AfT Recipient Countries, avg. AfT in US\$ Mio. per Country, 2001-2007

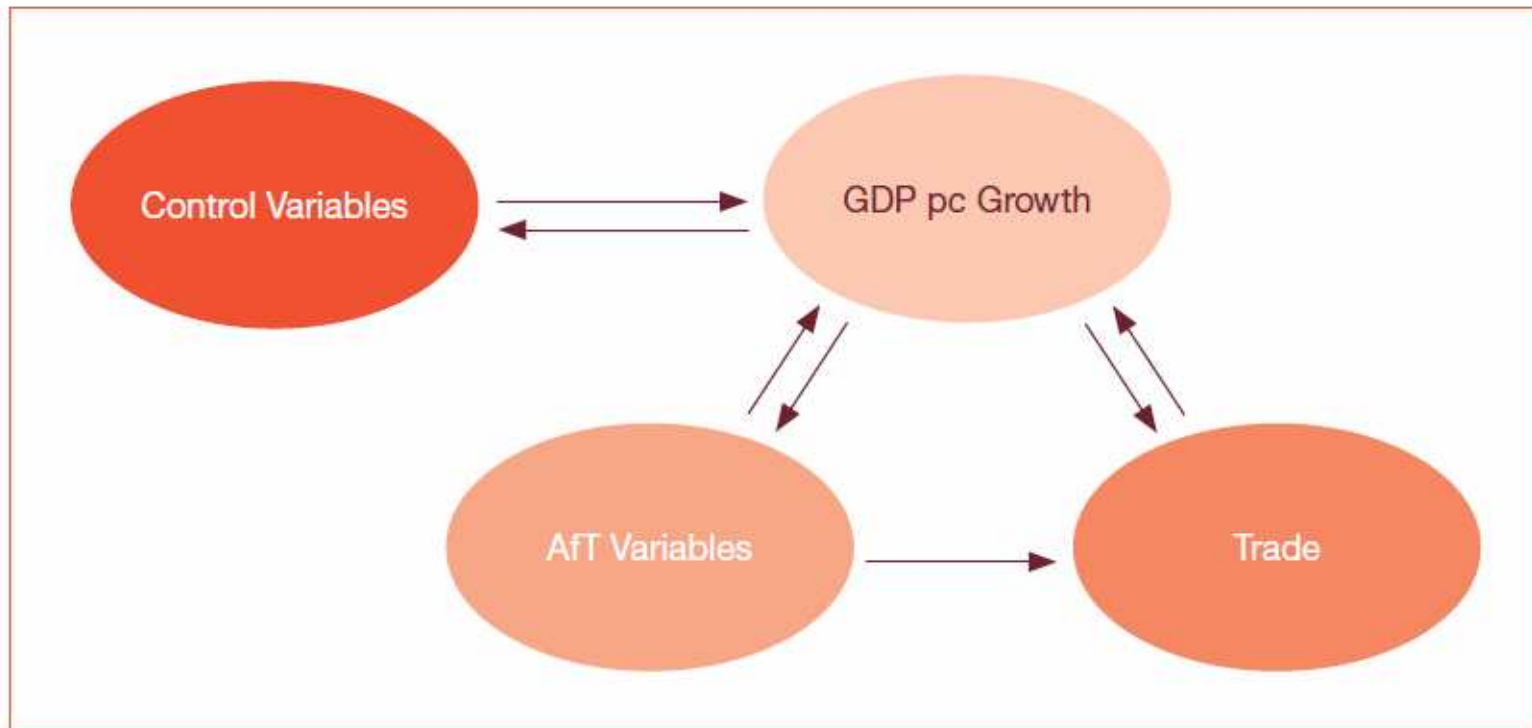


Note: AfT commitments in US\$ million at constant 2007 prices. Source: OECD Creditor Reporting System

(2) Previous Studies

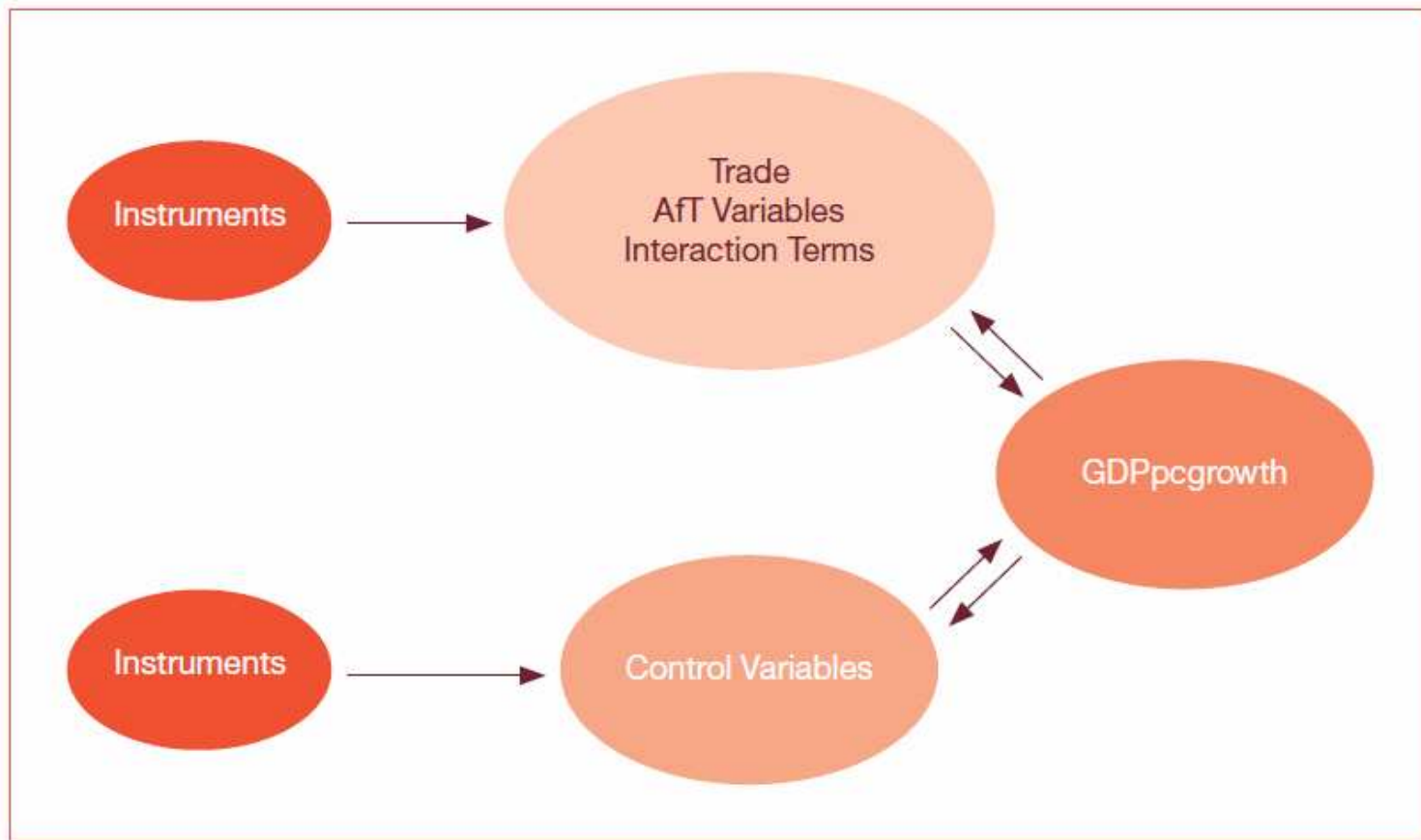
- Borrmann, A., M. Busse and S. Neuhaus (2006), Institutional Quality and the Gains from Trade, *Kyklos*, Vol. 59(3), pp. 345-368.
- Freund, C. and B. Bolaky (2008), Trade, Regulations and Income, *Journal of Development Economics*, Vol. 87(2), pp. 309-321.
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(3) Research Design



Basic model

Research Design



Estimation strategy

(4) Empirical Model and Results

- **Dependent Variable:** GDP per capita growth
- **Data Sample:** more than 100 developed and developing countries
- **Period:** 1971 to 2005
 - We have taken 5-year averages to reduce large variations in the data and the reduce the effects of business cycles

Empirical Model and Results

Control Variables:

- Initial GDP per capita
- Population growth
- Investment
- Trade

Empirical Model and Results

AfT areas used in our empirical investigation:

- Institutions
- Infrastructure
- Human capital

We broadened the AfT agenda to include human capital
(education)

Empirical Model and Results

Aid for Trade Variables:

- Total (Primary/Secondary/Tertiary) Education
- Telecommunications
- Roads
- Railways
- Power Generating Capacity
- Institutional Quality (Political Constraints)

Summary of the Main Results

- Strong results for:
 - Education (total/primary/secondary)
 - Institutions
- Less robust results for physical infrastructure
 - No evidence or data problems?

Summary of Main Results

- These cross-country results hide large variations at a country level:
 - AfT could enhance the benefits from trade in one country but not in the country next door
 - Same for diverging results at a regional level
- Regional and country case studies needed to assess the potential benefits of AfT

Policy Implications

- Countries need a certain development stage to harness the benefits from trade:
 - Educated workforce
 - High-quality institutions
- Here, AfT can play an important part

Thank you for your attention !

World Bank Good Governance Indicator	Partial Correlation with Political Constraints
Government Effectiveness	0.60
Regulatory Quality	0.68
Rule of Law	0.57
Control of Corruption	0.51
Political Stability	0.54
Voice and Accountability	0.86
Sources: World Bank (2008a) and Centre for Systemic Peace (2008).	

Tab. 1 Partial correlations between Political Constraints and World Bank Good Governance Indicators, average 2001–2005