

“Aid for Trade” initiative in order to achieve the development objectives

Diana Popa¹

This paper addresses the “aid for trade” initiative as a key source of economic growth and prosperity, so necessary in developing countries and especially, least developed ones. Based on a deductive analysis, the research purpose is to observe, as much as possible, the involvement of international organizations to support this foreign aid and its effects on poor nations.

Assuming that developing countries need foreign aid to get out of poverty and to fully benefit from the advantages of international trade, but not only, the paper shows that from the XXI century, donor countries have considerably increased the amounts allocated for this purpose.

Keywords: Aid for Trade, developing countries, WTO Ministerial Conference in Hong Kong, economic growth and welfare, development, OECD

JEL Classifications: F13, F35, F53, F63

Introduction

Throughout history, new initiative of foreign aid, known in the literature as “Aid for Trade” (AfT) was thorough and supported by

¹Diana Popa, PhD., Doctoral School of Economics, Faculty of Economics and Business Administration, “Alexandru Ioan Cuza” University of Iasi. E-mail: diana-popa@hotmail.com or dy.popa@gmail.com

many international organizations such as UNCTAD, World Bank, WTO, OECD and not only.

Starting from December 2005, after the Hong Kong Ministerial Conference, WTO has joined to these institutions, embracing the “aid for trade” platform to address the needs and concerns of developing countries. In addition, it was placed in the debates held in the Doha Round to help achieve the development goals, proposed by multilateral trade negotiations, launched in Qatar’s capital (2001). If at that time, its purpose is to support and help developing countries, particularly those less advanced to develop the capacity and trade-related infrastructure needed to implement and benefit from WTO Agreements and more particularly, to extend their trade (WTO, 2005), nowadays, AfT will continue to represent an important category of foreign aid (Naito, 2012).

The endorsement of this remark through a series of well-founded arguments represents the main line of research of this article. Overall, the paper is organized as follows. Section 2 is a review of the literature and presents the main results and conclusions of the researchers on the relationship between aid for trade and development. Section 3 captures the contributions of main international forums in supporting AfT. Section 4 presents the context of launching the “aid for trade” initiative and its main objectives. Section 5 describes the trend of foreign aid in the last period and nations/regions who receive it, while section 6 concludes the main results of research.

Literature review

Expression “aid for trade” is not topical in treaties of international trade. Even more than that, this phrase took many forms and meanings over time. It happened that today we attend in the face of a logic that has evolved from “*trade, not aid*” to “*trade and aid*” until “***aid for trade***”. According to literature, an opinion unanimously accepted by international organizations, this conceptual progression is

significant in that it marks an important step in the front of international community. Thus, the representants of international organizations should accept the conclusion of several studies showing that trade development assistance must accompany any effort of trade reform for being meaningful and lasting, in terms of their impact on development (Page, 2007; World Bank, 2004; OECD, 2006; De Lombaerde and Puri, 2009).

To understand the logic between aid, trade and development, many economists, especially those interested in the development process, clashed by a persistent challenge. Precisely for this reason, the literature is very voluminous and with multi-faceted.

Most researchers study the **relationship** between **AfT** and **development** from a series of *theoretical analysis*. Among them, it may be mentioned Loke, Monge-Roffarello and Varma (2009), Naito (2010), Hoekman, Martin and Mattoo (2010) and analysts of international organizations like WTO, World Bank and OECD. Conclusions drawn from these studies shows that aid for trade is quite beneficial to developing countries, particularly to the least advanced ones. This aspect is attributed to the effects of this initiative – like GDP growth and welfare in the recipient country (Naito, 2010).

According to other specialists, the AfT assigned to economic infrastructure, ie transportation, communications, energy, logistics etc. would increase public services of a state, thus reducing transport costs (Hoekman, Martin and Mattoo, 2010).

Researchers which opine that effects arising from foreign aid send to a number of benefits are among the most numerous. But, however, over time there have been some critics. According to them, the foreign aid could have political and economic consequences that would neutralize any beneficial effect. In other words, if there are some political consequences, aid for trade doesn't always ensure a global growth. Presence of some conflicts of interest within a state or a polyvalent

political system weakens the potential growth of the donor country which, in turn, supplies the terms of trade of the recipient country.

However, nowadays, there are more and more experts who study the effects incurred through the AfT - development relationship from the perspective of an *empirical analysis*. Although the number of this researchers is still very small, the findings presented are of a particular significance, reflecting the real situation existing in an economy when the two elements of the relationship work together. Naito (2012), for example is among those few analysts. In his studies, he tries to analyze the importance of aid for trade from the perspective of difference in the income tax system between donor and recipient countries. Final results of the research show that aid for trade contributes to reducing transport costs of beneficiary state when it imports from donor countries.

Under these circumstances, we can say that aid for trade remains a priority for most developing countries and donors. Stakeholders have connected this external support to a broader development agenda, with strategies and objectives focused on economic growth, poverty reduction and regional integration.

III. The beginnings of "aid for trade" initiative

For several decades, the term "*trade, not aid*" was a predominant motto in trade treaties. In the mid 60s, when UNCTAD coined the concept of "trade precipice", it became obvious that Official development assistance (ODA) will be insufficient to provide the foreign resources necessary to developing countries. The need for these reserves has increased once with import of capital goods – so important to improving the production capacity, marketing and development (De Lombaerde and Puri, 2009, p. 5).

Over recent years, the difficulties, with which the vast majority of developing countries have encountered to benefit of trade and economic reform and to promote development, showed that

recommendations such as “trade, not aid” and even “trade as aid” have also their limitations.

1. UNCTAD contribution to the initiative conceptualization

Being an interest point of the United Nations system on integrated treatment of trade and development, **UNCTAD** has contributed to the conceptualization of “*aid for trade*” initiative since its inception (1964). Moreover, it provided support in trade area and capacity building – ie aid for trade – to all developing states and countries with economies in transition to effectively integrate and to obtain some development benefits from the international trading system (UNCTAD, 2008). But the contribution of a single organization in this respect was not sufficient for the billions of people who wanted to exploit fully the opportunities created by open trade, particularly when globalization bypasses most of the poorest states of the world (Page, 2007) and their people. Although it would be extremely favourable for the majority of people from developing countries to benefit from the advantages of this geo-economic process because the internal policies, obstacles encountered and in particular, inequities from the world trading system did not anything else than accentuating the difficulties facing the least advanced countries. Moreover, in the 90s, there was a awareness that the participation of developing countries in the international trade is hampered not only by trade barriers imposed by developed countries, but rather by the physical and institutional deficiencies from their economies, making exports and imports more difficult (Deardorff and Stern, 2009, p. 534). Finally, it was noticed that the need for international cooperation in this field should be supported and by other international organizations.

2. World Trade Organization – an ardent supporter of AfT

Therefore, a second institution that has offered to assist poor countries on trade-related technical assistance was **WTO**. But despite

the negotiations of trade liberalization that were held under GATT rounds and completed, subsequently, by the unilateral reforms, many developing countries have not been able to integrate into the world economy (Page, 2007).

Increasing efforts in this regard led to the recognition in Marrakech Declaration (1994) of the need to provide trade-related technical assistance to developing states for implementing new GATT/WTO agreements (OECD, 2006, p. 235). Shortly after signing the final declaration resulted in the Uruguay Round, African ministers have sought help from the international community (WTO, UNCTAD, International Trade Center (ITC)) to consolidating the capacity oriented towards trade policy formulation, participating in trade negotiations and implementing trade agreements (UNCTAD, 2008). As response, it was established **Joint Integrated Technical Assistance Programme (JITAP)** to mobilize expertise and help the partners from African countries to participate in the WTO, to integrate in the new multilateral trading system and take advantage of new trade opportunities arising from globalization of world markets (Blackhurst et al., 1999 apud. OECD, 2006).

The series of programs to provide development assistance to poor countries don't stop there. In 1997, WTO members adopted a new initiative on trade capacity building of least developed countries (LDCs), known as the **Integrated Framework for Trade-Related Technical Assistance**. Supported by six major multilateral bodies such as the IMF, ITC, UNCTAD, UNDP, World Bank and WTO, the fundamental principle of the Integrated Framework (which wasn't applied in the end) was that coordinated and integrated responses are critical for the effectiveness of donor support (World Bank, 2004). This initiative suggests, in fact, that the necessary support to developing countries to promote their integration into global economy can not be provided by a single organization or a group of developed countries (an opinion shared by UNCTAD since the '70s), but rather,

by whole international community. According to a report of the IMF and the World Bank in 2005, to help developing countries on participating in international trade and supporting traditional adjustment costs (claimed by liberalization), international community and major trading powers must continually assist their development (Deardorff and Stern, 2009, p. 534).

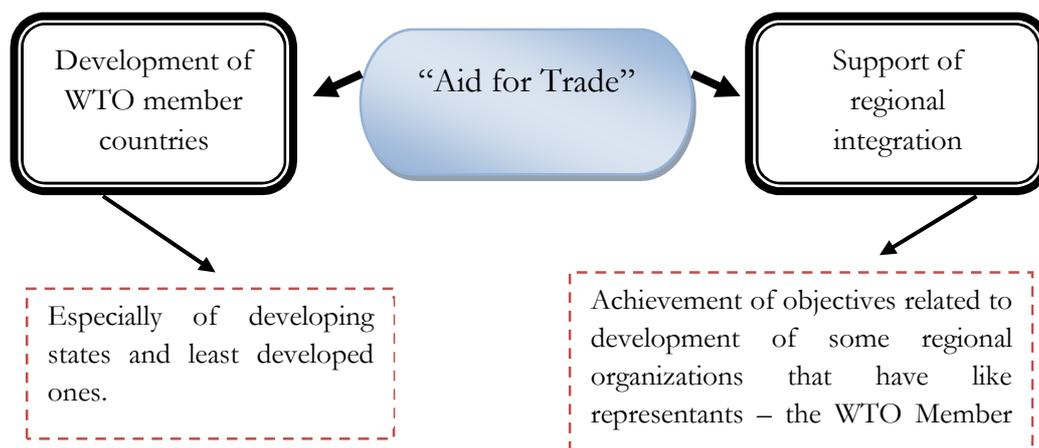
The launch of the “Aid for Trade” initiative and the relevance of development component

Genesis of “aid for trade” notion is largely in the idea that materialization of the potential benefits of trade is not simply a regulation matter of the liberalization (Rodrick, 2001). It is necessary also an policy environment that enables and strengthens the entire spectrum of critical capabilities, such as institutional, informational, infrastructure, regulation and implementation ones (OECD/WTO, 2011). This perspective began to take shape shortly after the Doha Ministerial Conference (2001) and by December 2005 has become a key element and a recommendation in the Hong Kong meeting. According to OECD researchers, the lack of capacities in developing countries and in the least advanced ones to implement and benefit from trade reform has become an increasingly discussed topic in the Doha Round negotiations (OECD, 2006, p. 236). As a result, up to the sixth ministerial meeting, the World Bank and IMF have proposed together a “*package of aid for trade*”. It should include traditional instruments, such as: trade-related technical assistance and offer capacity building, including the strengthening institutional capacity and trade-related infrastructure.

In accordance with the literature (Deardorff and Stern, 2009; Dijck and Faber, 2006 and many others), we can say that a special version of the aid reform is represented by “**Aid for Trade**” proposal which was launched by WTO in 2005, immediately after the Ministerial Conference in Hong Kong. Its purpose was to realize development

goals of members and their regional organizations (in order to harmonize existing policies) and to help developing countries. All these were proposed for developing countries so as to better integrate into the world economy and trade, through improving business infrastructure, strengthening institutions and their policies in terms of trade (ICTSD, 2011). In a narrower sense, the main objectives of the “*Aid for Trade*” program are illustrated in the figure below.

Figure 1
The fundamental objectives of the “Aid for Trade” platform



Source: elaborated by the author

Although, at present, it's quite discussed in the Doha Round, no member has defined its modus operandi. “Is it a structural adjustment program or one of unemployment insurance or maybe a package of budget support of an industrial promotion program or what else?” wonder the most researchers. Whatever the purpose of this initiative, it is sure that developing states should be protected from structural adjustments of market trend, which result de facto from trade liberalization.

There are therefore a number of views that point a more comprehensive approach of development embraced by the “aid for trade” initiative. An UNCTAD report in 2008 concluded that aid for trade is de facto a support for institutional, infrastructure, regulatory and human resources development in developing countries. Moreover, the two components - aid for trade and development dimension - are moving rapidly towards a new global initiative of solidarity (UNCTAD, 2008). The European Commission, for its part, believes that “aid for trade” supports the poor and vulnerable countries in developing its basic economic infrastructure and tools they need to capitalize on trade – as an engine of economic growth and development (European Commission, 2008, p. 3). It should not be overlooked the opinion of those researchers and international institutions that award to “aid for trade” initiative – the side of *sustainable development*. Thus, in accord with researchers De Lombaerde and Puri (2009, pp. 87-96), the program through which is given developing countries – trade-related technical assistance – can be understood and addressed in the broader context of sustainable development, as long as it will be an objective of environmental and trade policy. Moreover, analyst like Page (2007), Njinkeu and Cameron (2008) etc. concluded that a large amount of evidence indicates that multilateral trade liberalization offers to developing countries some substantial potential benefits. Also, according to them, international trade when is coupled with internal reform and macroeconomic policies plays a key role in promoting the development of sustainable economy, employment opportunities and most importantly, poverty reduction. Although they share the same idea, Dijck and Faber (2006), for example, believe that aid for trade can contribute to sustainable development and poverty reduction only if it is aligned with a political agenda of development much broader, exemplifying the European Union one. From this perspective, it is necessary that some technical

assistance initiatives exist not only in trade area, but also in services, environment, health etc.

Also and for this reason, aid for trade is a small, but desired initiative encouraged both in the Doha Round and by other international financial institutions. Moreover, due to the impasse in which the Doha Round and the WTO system, as a whole, are currently, we think that it is even more important that these programs be supported by other institutions and be provided to developing countries, particularly the LDCs.

Supporting developing countries through development assistance

The beginning of XXI century emphasized the need of supporting developing states. Besides international organizations, other donors, such as the EU, U.S. and Japan have made their presence felt. Regarding Member States of the European Union, they make tremendous efforts to realize a more operational aid for trade, by improving existing financing mechanisms and to increase this funding. Precisely because of these attempts, the EU was seen as the biggest donor of aid for trade and leader in financing measures, designed specifically to increase trade capacity of developing countries (European Commission, 2008, p. 3). Similarly, as a result of commitments made at the Hong Kong meeting and subsequently, the adoption of its *Strategy on Aid for Trade* (15 October 2007), the EU is fully committed to enhancing the integrated framework of least developed countries. Through necessary capacity building for trade and more efficient use of the advantages resulting from trade, the EU seeks actually to promote development and eradicate poverty.

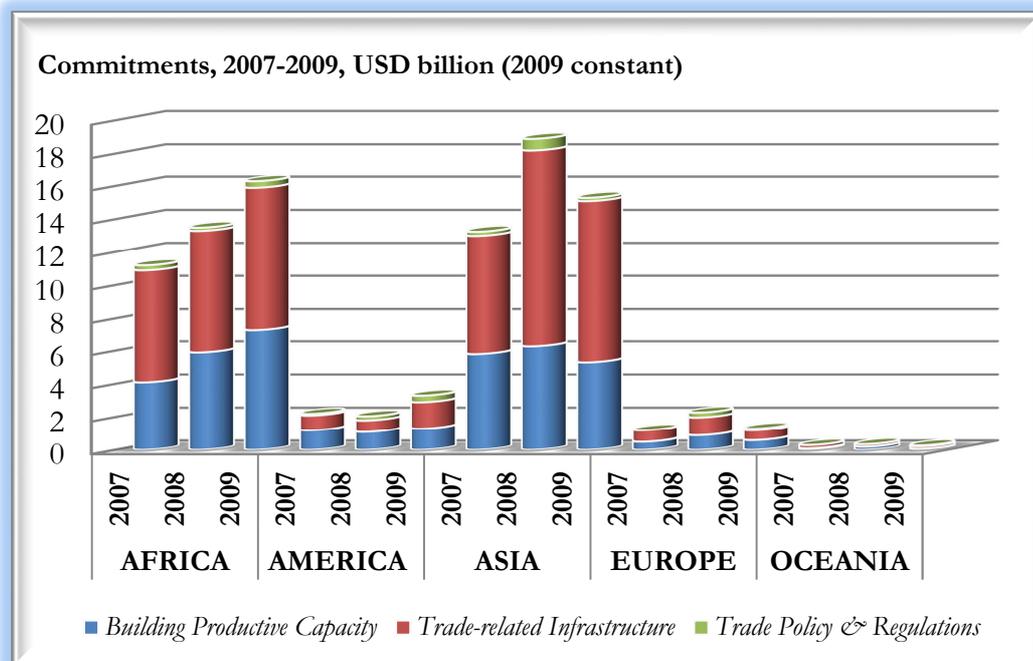
All these efforts are nothing but vital support in trade capacity building in Africa (especially Sub-Saharan Africa) and in other developing countries in Asia, Latin America, the Caribbean and Oceania and not just (see in the **Figure 2**).

According to international organizations, the global trend of commitments on Aid for Trade increased significantly in real terms from an average of 25 billion U.S. dollars during 2002-05 up to 40 billion U.S. dollars in 2009 (by approximately 60%) (OECD/WTO, 2011, p. 48).

Thus, analyzing the figure below, it can see that states receiving the most financial funds for their economy growth and poverty eradication remain ones of Asia and Africa, with a smaller percentage – the nations of the Americas and Europe.

Figure 2

Aid for Trade by region & category



Note: Building Productive Capacity includes trade development activities like: banking and financial services, agriculture and fishing, industry, tourism etc.

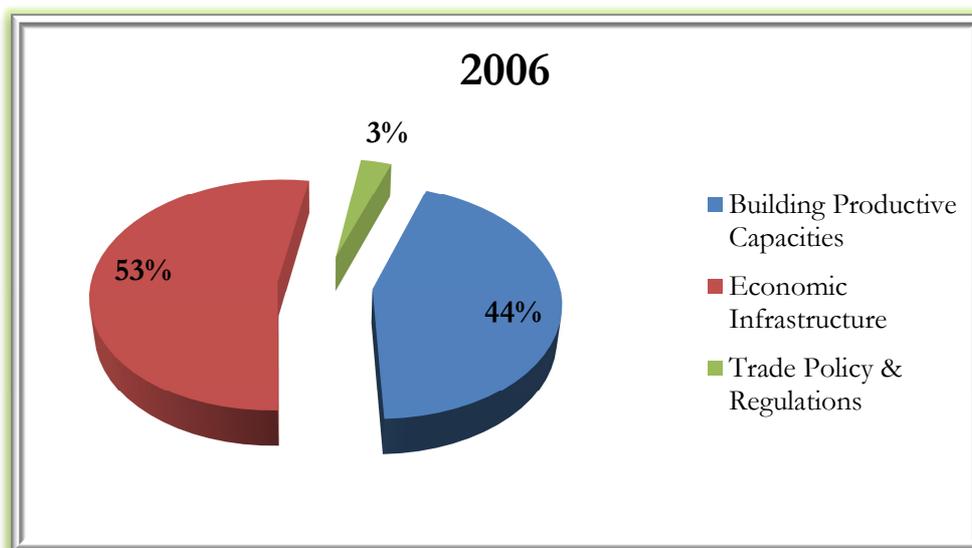
Trade-related Infrastructure refers to transport and storage, communications, energy etc.

Source: prepared by author based on processing data from OECD/WTO (2011), *Aid for Trade at a Glance 2011: Showing Results*, OECD&WTO, Paris and Geneva, p. 16

Another observation that can be made is that once with the installation of the economic crisis in most donor countries, the commitments on trade support were significantly reduced (the case of Asia, Oceania and Europe) with the exception of the African and American continent.

These are not the only changes regarding the “aid for trade” initiative. A significant modification has occurred also in the components of this strategy (see the figure below).

Figure 3
Components of “Aid for Trade” platform in 2006



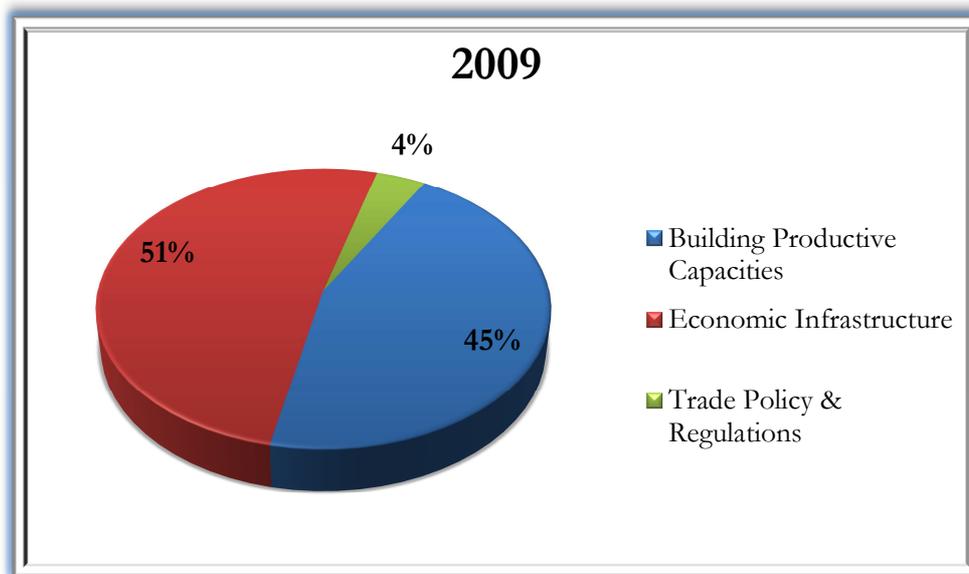
Source: prepared by author based on data analyzed from OECD/WTO (2011), *Aid for Trade at a Glance 2011: Showing Results*, OECD&WTO, Paris and Geneva, p. 48

Thus, if during launch initiative (2006), a total of 137 billion U.S. dollars was divided as shown in *Figure 3*, three years later, a larger share of total went to building productive capacities and trade policy and regulations (see *Figure 4*).

Despite the increasing of commitments value on aid for trade from year to year, it can be seen that the annual growth rate is rather low. According to the OECD/WTO (2011), if we compare 2009 with 2008 in this regard, it is found that the increase is only 2%, while compared with 2007, the increase was by 28% (from 31 to 39 billion U.S. dollars). The main explanation for this major decline is the installation of global crisis and the effects of the recession that followed, particularly in donor countries that offer development assistance. In these circumstances, since 2009, developing countries have begun to feel the full effects of the financial and economic crisis by reducing the flow of FDI, decreasing of trade, reducing the flow of remittances, commodity price volatility etc. At this juncture unfavorable, more than ever, the aid for trade becomes indispensable for low-income countries to build the necessary capacities to penetrate global markets (OECD, 2006, p. 14). Despite the situation in donor countries, they have substantially increased the aid measures through bilateral projects and development programs.

Figure 4

Aid for Trade by category (2009)



Source: prepared by author based on processing data from OECD/WTO (2011), *Aid for Trade at a Glance 2011: Showing Results*, OECD&WTO, Paris and Geneva, p. 48

According to international organizations, the current economic crisis has highlighted the vulnerability of developing countries. In such a situation, the “aid for trade” initiative needs to resolve this problem by providing development assistance, assuring the necessary capacity to meet the new challenges of the global market.

Concluding remarks

Aid for Trade is a tool that could and can resolve the primary issues of developing countries. In recent years, the demand for these funds has increased considerably, becoming more important at the present time both in donor strategies, as well as in those of the beneficiary countries.

Analyzing statistics on “aid for trade” initiative, we found that the European Union prove, especially lately, that it fight fervently to promote the development and eliminate poverty among world states. In addition, Sub-Saharan Africa remains the region that attracts the highest percentage of financial aid, globally available in order to improve their trade infrastructure, but also to consolidate productive capacities. In the same vein, we consider that in recent years, especially after the economic crisis it was a change among the components of “Aid for Trade” strategy. Resources in the form of aids that had returned to economic infrastructure (transport, logistics and so on) gradually yielded ground to such areas as agriculture, banking, tourism, industry and others, due to the negative effects of the crisis and subsequent economic downturn.

In conclusion, we can say that today, AfT initiative is widely embraced by developing countries, NGOs, the WTO and other international institutions for the simple reason that it can support the broader objectives, like social protection, food security, women’s autonomy, adaptation to climate change, energy production, poverty eradication and last but not least, sustainable development.

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