Relation between Aid for Trade and Export Structure of Developing Countries

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With the original purpose of improving export performance and economic growth, the Aid for Trade (AfT) program is known for improving trade facilitation, transportation, capacity development and market access, which all lead to increasing export performance in recipient countries. Moreover, the shift in world trade with an increase of medium and high technology exports rather than low technology exports has created one question about the relation between AfT and the export structures of developing countries. The empirical results clarify that the relation of AfT with the export performance of developing countries as well as bilateral trade between donors and recipient countries is statistically positive. However, regarding bilateral trade, AfT has a statistically positive relation with the export of low technology and the import of medium technology.

Keywords: Aid for Trade (AfT), Bilateral Trade, Low Technology, Medium Technology and High Technology

I. INTRODUCTION

Most developing countries still hinge on foreign aid as a main financial resource for modernizing their infrastructure, institutional and regulation reform, and increasing their productive capacity. Challenges which those countries are facing in the integration into the world economic market include market information, policies, procedures, institutions and infrastructures. Global crises have a worse impact on those challenges for developing countries. Therefore, the WTO and the OECD worked together to establish the Aid for Trade (AfT) program in Hong Kong in 2005 to focus more on developing the trade environment of Least Development Countries (LDCs) with an official development assistance (ODA) program. AfT aims to create a trade competitive environment in LDCs, helping them catch up and gain benefits from trade liberalization both in regional market and the

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global market through strengthening capacities related to export.

Bilateral and multilateral donors have increased their financial assistance in the AfT program by more than 20% per annum, based on the baseline period of 2002~2005 (OECD, 2010). Asia and Africa are priority regions of AfT inflow, notably in infrastructure, building productive capacity, trade policy and regulation. The export structure of low income countries has largely relied on labor intensive manufactured goods and exports as a source of poverty reduction and economic growth (Bakht, Salimullah, Yamagata, and Yunus, 2005). In the 1960s, 50 percent of developing countries’ exports were primary commodities and only 15 percent of developing countries’ exports were manufactured goods (Martin, 2001). Since 1988 the share of high technology or high skill labor products has risen significantly from 8% to 23% in 1997. However, the increase is only from a few developing countries (Mani, 2000).

Currently, world trade has increased considerably between the North and South Countries. The world trade volume reached around 14 trillion USD in 2008. However, the trend in world trade declined in 2009 due to the impact of the global financial crisis in 2008. Meanwhile, the structure of low, medium and high skill exports from the South has dramatically increased since 2000, particularly medium and high technology exports (UNCTAD, 2010). However, the share trend of low technology exports from the South Countries was declining and the export of medium and high skill labor exports into the global market was increasing during the period of 2003~2009. Emerging countries in the South Countries such as India, China and Korea etc. have significantly influenced the change in the export structure of the South Countries. Meanwhile, the trend in world trade in medium technology goods has increased dramatically compared with high and low skill products. The current shift of export structure in developing countries is likely to oppose to Heckscher-Ohlin trade theory’s assumption that developing countries should export labor intensive goods and capital intensive goods should be exported by developed countries.

Many scholars have studied the relations between AfT and economic variables such as economic growth, poverty reduction, international trade, transportation cost, etc. Empirical studies on the relation between AfT and export performance have indicated that those relationships are positive. In another word, the more aid for trade there is, the more exports there are. The export volume has increased due to the improvement in export competitiveness through the AfT program focusing on infrastructures such as transport, energy, telecom, capacity development, and trade regulation and policy. Market access including trade policy and regulation, and capacity development in agriculture, fishery, industry and financial access, etc. are part of the AfT program. Venable has found that a 10 per-