

Aid for Trade and Export Promotion: Economics or Politics?

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Motivation (1/2)

- Recognizing the central role of international trade in promoting economic growth and development, the World Trade Organization (WTO) launched the "Aid for Trade Initiative" in 2005 with the objective of assisting developing countries to speed-up their integration in the world economy and to harness the benefits of international trade.
- The WTO defines the "Aid for Trade Initiative" as one that helps developing countries overcome these limitations and assists them to increase exports of goods and services, to integrate into the multilateral trading system, and to benefit from liberalized trade and increased market access.
- Assistance flows are considered part of the "Aid for Trade" (AfT) if they target projects or programs identified by recipient countries' national policies as trade-related development priorities.
- AfT flows are broadly classified under three main categories:
 - flows aiming at building trade policy and regulation capacity (trade policy administrative management, trade facilitation, enhancing regional trade agreements and multilateral negotiations);
 - flows targeting the development of productive capacity (economic sectors including agriculture, forestry, fishing, industry, and mining); and
 - flows with the objective of enhancing infrastructure (transport and storage, communications, energy).

Motivation (2/2)

- A recurrent research question earmarked most of the literature: how effective were AfT flows in enhancing the exports of recipients? (Vigil and Wagner, 2012; Hühne et al., 2014a; Ghimire et al., 2016; Ferro et al., 2017; Martinez-Zarzoso et al., 2017).
- To answer this and other related questions, the empirical analysis was usually couched in either one of two models:
 - an export demand model (Hühne et al., 2014a; Hühne et al., 2014b; Ghimire et al., 2016; Ferro et al., 2017; Martinez-Zarzoso et al., 2017)
 - a gravity model (Helble et al., 2012; Ahn and Lee, 2016; Pettersson and Johansson, 2016).

What we do

- The objective of this paper is to assess the impact of AfT on the export performance of 155 recipient countries between 2002 and 2019.
- We control for zero values in trade and AfT as well as the endogeneity of AfT.
- Using the OECD Creditor Reporting System (CRS) data on AfT, we investigate the impact of AfT flows on bilateral exports from recipient to donor countries using a gravity-type equation
- Moreover, we investigate the AfT-exports-nexus by income level, geographical region, extensive vs. intensive margins.

What we find

- AfT flows targeting productive sectors (such as industry and agriculture) are likely to increase exports of recipient countries after controlling for the endogeneity of AfT.
- Within the category of AfT flows targeting trade policy and regulations, funds devoted to the development of regional trade agreements (RTAs) and trade-related adjustment measures are likely to increase exports of aid-recipients.
- When we estimate the impact of AfT across different income levels, we find that low income and low middle income countries are the winners.
- Finally, at the regional level, a positive and significant impact of AfT flows on MENA and Asian countries' exports is found.

Outline

- Data and Stylized Facts
- Methodology
- Empirical Findings
- Conclusion

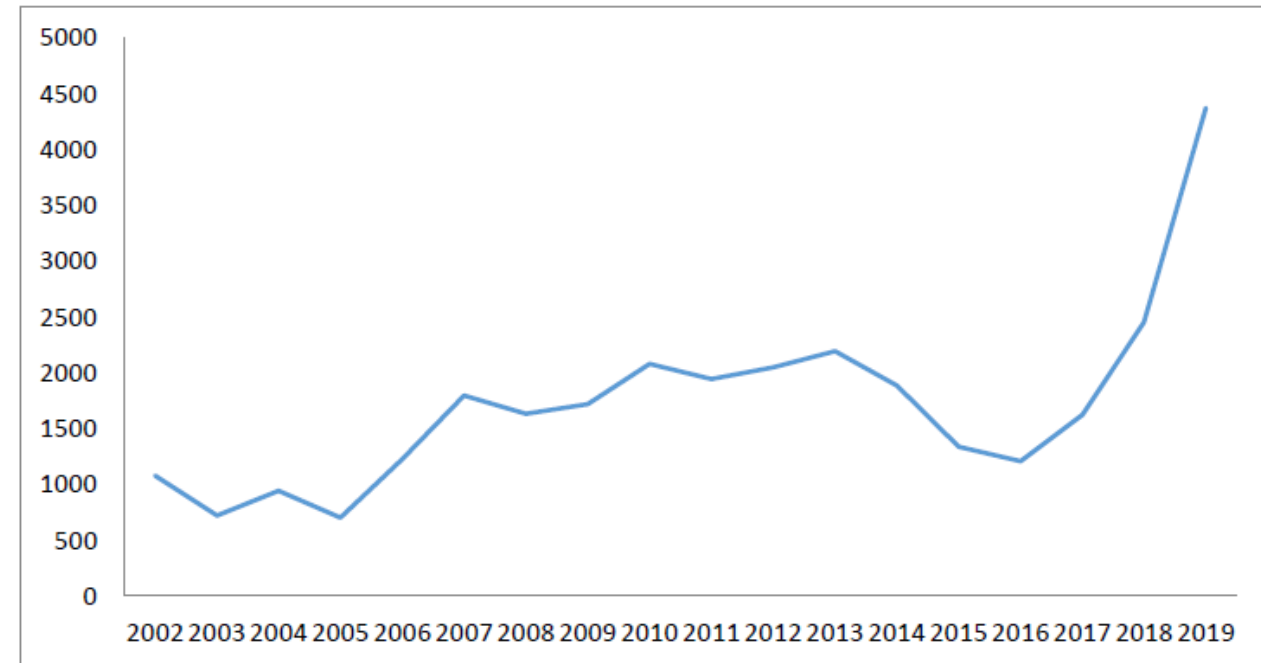
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Overview of Aid for Trade

- Aft is measured as the sum of ODA flows directed towards technical assistance for (i) trade policy and regulations, (ii) economic infrastructure, and (iii) productive capacity building
- Before the launch of the “Aid for Trade Initiative” in 2005, flows targeting trade-related matters had already been part of ODA, yet not listed explicitly as Aft.
- In the year following the launch of the initiative, the total value of AFT more than doubled, rising from USD 702 million to nearly USD 1.8 billion. Since 2006, Aft increased steadily by 6.6% yearly on average (OECD, 2021).

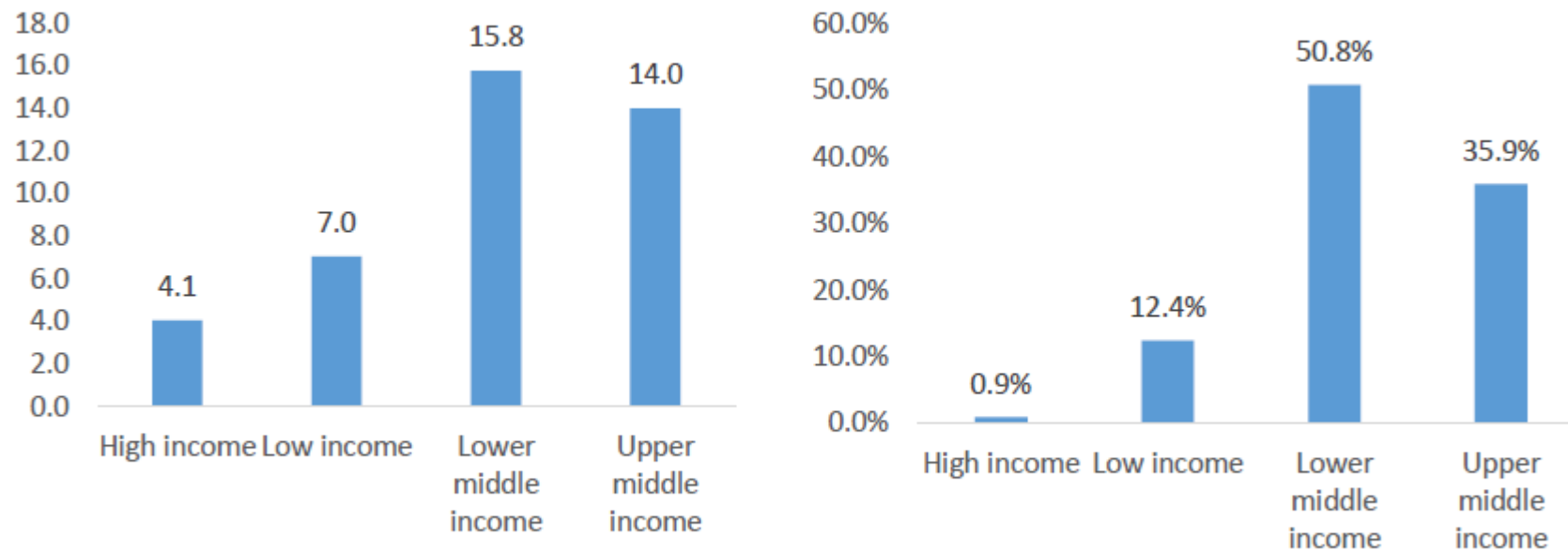
Figure 1: Evolution of Aid for Trade (in USD millions)



Source: Authors' own elaboration using the OECD dataset.

Overview of Aid for Trade

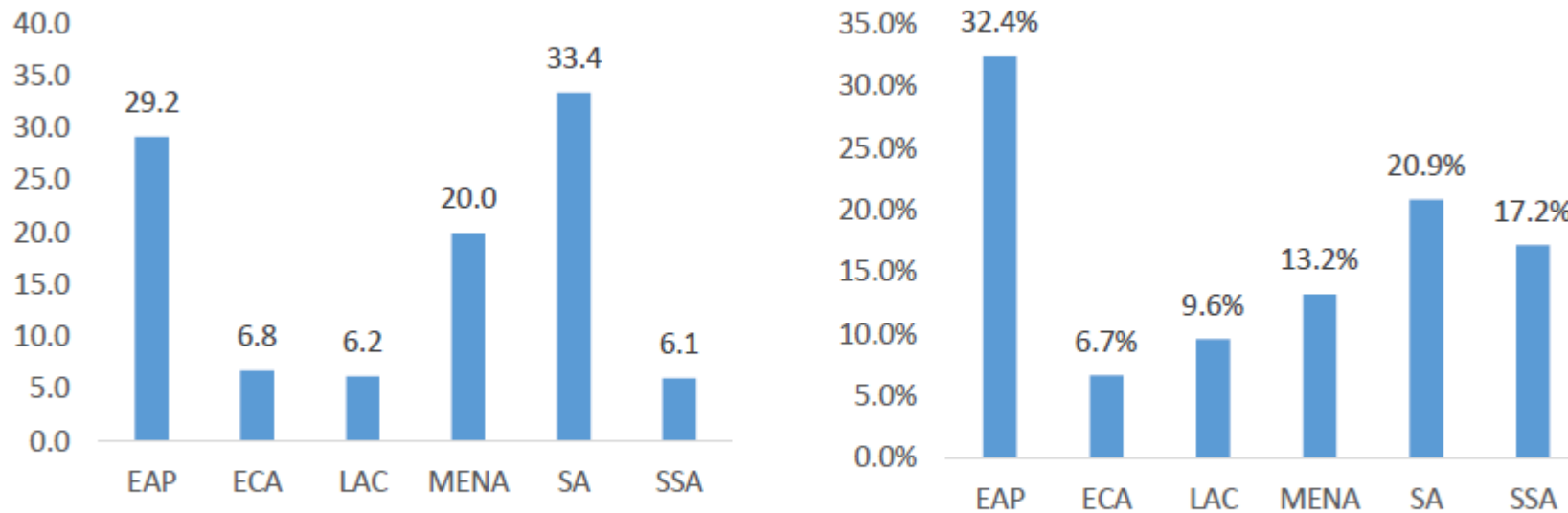
Figure 2: Aid for Trade, by income level (2002-2019) (share of total Aid for Trade flows)
(a) Average of AfT (b) Share of AfT



Source: Authors' own elaboration using the OECD dataset.

Overview of Aid for Trade

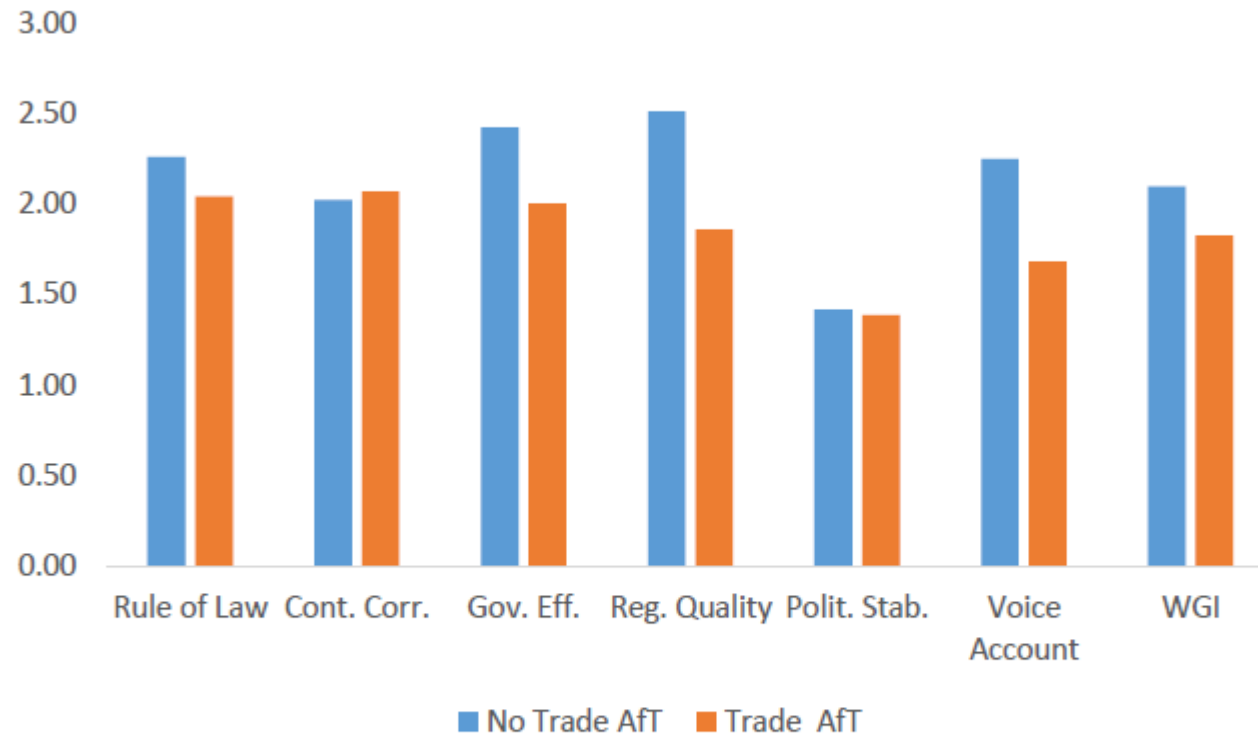
Figure 3: Aid for Trade, by region (share in total Aid for Trade flows)
(c) Average of AfT (d) Share of AfT



Source: Authors' own elaboration using the OECD dataset.

Aid for Trade and Institutions

Figure 7: Absolute Difference of the Quality of Institutions, Trade and Aid for Trade



Source: Authors' own elaboration using WGI and Aid for Trade data.

Note: The blue bars represent countries that do not trade and received an aid for trade. Orange bars represent countries that trade and that received an aid for trade.

Outline

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- **Methodology**
- Empirical Findings
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Methodology

- In order to examine the effect of AfT on export performance, we adopt a gravity-type equation (Mac Callum, 1995; Feenstra, 2002; Anderson and van Wincoop, 2003; Santos Silva and Tenreyro, 2011).
- Our basic econometric specification relies on a Poisson Pseudo-Maximum Likelihood estimation as follows:

$$X_{ijt} = \exp(\beta_0 + \beta_1 \ln GDP_{it} + \beta_2 \ln GDP_{jt} + \beta_3 Aid_{ijt} + \beta_4 Inst_{ijt} + \beta_5 Inst * Aid_{ijt} + \gamma_{ij} + \epsilon_{ijt})$$

where X_{ijkt} represents the exports from recipient country i to donor country j in year t ; $\ln GDP_{it}$ and $\ln GDP_{jt}$ are country i and j 's real gross domestic product (in log), γ_{ij} are bilateral fixed effects that control for all the gravity type variables; Aid_{ijt} represents the value of AfT from country i to j in year t , $Inst_{ijt}$ is the absolute difference between institutions in i and j , ϵ_{ijt} is the discrepancy term.

Empirical Issues

- Yet, this specification might suffer from two potential problems.
- First, AfT might be endogenous since some donors might provide significant flows to key trade partners.
 - Therefore, we propose to instrument AfT using the political distance between donor countries and recipients through the number of votes similar to the members of the Security Council given that, sometimes, loans from international financial institutions or countries might be politically motivated (Easterly, 2006).
- Second, our regression might include a substantial share of zero trade flows and zero aid flows.
 - To deal with the zero bilateral trade issue, we opt for a Poisson pseudo-maximum likelihood (PPML) regression, as suggested by Santos Silva and Tenreyro (2006).
 - The PPML estimator is a non-linear estimator used to deal with the zero trade observations and to provide unbiased and consistent estimates that are robust to the presence of heteroscedasticity.

Extensions

- Aif for Trade can be perceived as a tool that reduces:
 - The fixed cost of exporting, thus affecting the extensive margin of trade measured by the probability that a country starts exporting to another country.
 - The variable cost of exporting, which affects the intensive margin of trade measured by the quantity of exports.
We measure the effect on both variables.
- We extend the analysis:
 - By income level as low income countries are those that get most of the flows.
 - By region given that some emerging economies benefit more than others.

Data Sources

- Gravity variables come from the Centre d'Etudes Prospectives et d'Information Internationales (CEPII, France).
- GDP variables come from the World Development Indicators.
- Data on institutions are extracted from the Global Governance Indicators dataset.
- The UN vote proximity has been retrieved from the UN votes database.
- Data on AfT is taken from the Creditor Reporting System (CRS) developed by the OECD. We focus on three main components of AfT flows: productive capacities, economic infrastructure, and trade policy related flows. This will add to the analysis by helping us disentangle the effect of each component on recipients' exports.

Outline

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Empirical Findings

- Regarding the external instruments used, the results suggest that the closer the political proximity measured by the UN voting proximity, the more AfT is allocated from donor to recipient country.

Table 1: First step – AfT determinants

	Aid
Proxim. Vote	16.85*** (4.841)
GDP/cap. (org.)	1.715*** (0.499)
GDP/cap. (dest.)	-0.325** (0.144)
Constant	-12.39*** (3.803)
Bilateral FE	YES
Observations	464,014
R-squared	0.570

Notes: (1) Errors are clustered by recipient and donor pairs.

(2) Robust standard errors in parentheses.

(3) *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Empirical Findings: Extensive Margin - Overall

Table 2: Second step – Impact of AfT on Trade – Extensive Margin of Trade

	Rule of Law	Cont. Corruption	Gov. Effec.	Reg. Quality	Pol. Stab.	Voice Account.	WGI
Ln(GDP) origin	0.0821*** (0.00922)	0.0771*** (0.00942)	0.0746*** (0.00943)	0.0763*** (0.00943)	0.0775*** (0.00926)	0.0824*** (0.00922)	0.0745*** (0.00940)
Ln(GDP) dest.	0.0997*** (0.00457)	0.0983*** (0.00468)	0.0981*** (0.00475)	0.0969*** (0.00472)	0.101*** (0.00460)	0.101*** (0.00457)	0.0987*** (0.00474)
Aid	-0.00476 (0.00616)	0.00111 (0.00619)	0.00147 (0.00619)	0.00213 (0.00620)	-0.00318 (0.00609)	-0.00334 (0.00610)	0.00223 (0.00627)
Institution	-0.00524** (0.00264)	0.00459* (0.00242)	0.0141*** (0.00251)	0.00162 (0.00253)	-0.000893 (0.00154)	-0.00347 (0.00267)	0.00296 (0.00358)
Institution*Aid	-0.000647 (0.000933)	-0.00329*** (0.000831)	-0.00224*** (0.000858)	-0.00308*** (0.000888)	-0.000262 (0.000553)	-0.00243*** (0.000917)	-0.00353*** (0.00120)
Constant	-3.660*** (0.184)	-3.516*** (0.187)	-3.462*** (0.187)	-3.460*** (0.187)	-3.592*** (0.185)	-3.692*** (0.183)	-3.460*** (0.187)
Bilateral FE	YES	YES	YES	YES	YES	YES	YES
Observations	453,877	440,033	438,649	438,649	451,374	453,877	438,274
R-squared	0.704	0.701	0.700	0.700	0.704	0.705	0.701

Notes: (1) Regressions are run using linear probability estimation method with high dimension fixed effects. (2) Errors are clustered by recipient and donor pairs. (3) Robust standard errors in parentheses. (4) *** p<0.01, ** p<0.05, * p<0.1. (5) The dependent variable is the probability of trading.

Extensive Margin by Region

- As for the impact of Aft on exports, it is positive and significant in MENA and Asia. Yet the magnitude of the coefficient and the level of significance are higher for the MENA region, implying that the latter region is more likely to benefit from Aft flows in increasing its exports to donor countries

Table 3: Second step – Impact of Aft on Trade – Extensive Margin of Trade (by region)

	Rule of Law	Cont. Corruption	Gov. Effec.	Reg. Quality	Pol. Stab.	Voice Account.	WGI
Ln(GDP) origin	0.0202 (0.0128)	0.00794 (0.0130)	0.00549 (0.0131)	0.00609 (0.0131)	0.0113 (0.0129)	0.0189 (0.0127)	0.00354 (0.0131)
Ln(GDP) dest.	0.125*** (0.00601)	0.130*** (0.00612)	0.128*** (0.00619)	0.129*** (0.00623)	0.128*** (0.00600)	0.126*** (0.00597)	0.131*** (0.00621)
Aid	0.0121 (0.00925)	0.0206** (0.00953)	0.0200** (0.00956)	0.0192** (0.00956)	0.0156* (0.00933)	0.0152 (0.00932)	0.0206** (0.00962)
Institution	-0.00693** (0.00307)	0.00241 (0.00286)	0.0121*** (0.00298)	0.00222 (0.00293)	-0.000228 (0.00180)	-0.00653** (0.00318)	0.00505 (0.00418)
Institution*Aid	-0.00246* (0.00135)	-0.00410*** (0.00124)	-0.00353*** (0.00128)	-0.00248* (0.00132)	-0.000309 (0.000830)	-0.00368*** (0.00135)	-0.00343** (0.00169)
ECA*Aid	0.0339*** (0.00787)	0.0289*** (0.00803)	0.0313*** (0.00806)	0.0295*** (0.00806)	0.0319*** (0.00793)	0.0336*** (0.00786)	0.0295*** (0.00804)
LAC*Aid	0.0163* (0.00935)	0.00834 (0.00947)	0.00933 (0.00948)	0.00834 (0.00949)	0.0139 (0.00936)	0.0145 (0.00935)	0.00763 (0.00947)
MENA*Aid	0.0255** (0.0118)	0.0281** (0.0119)	0.0340*** (0.0120)	0.0296** (0.0119)	0.0251** (0.0118)	0.0270** (0.0117)	0.0318*** (0.0119)
SA*Aid	0.0115 (0.0109)	0.0115 (0.0110)	0.0114 (0.0111)	0.0118 (0.0111)	0.00999 (0.0109)	0.0101 (0.0109)	0.0119 (0.0110)
SSA*Aid	0.0514*** (0.00831)	0.0527*** (0.00846)	0.0561*** (0.00851)	0.0546*** (0.00851)	0.0506*** (0.00836)	0.0500*** (0.00828)	0.0549*** (0.00850)
Constant	-2.761*** (0.247)	-2.594*** (0.253)	-2.509*** (0.255)	-2.538*** (0.255)	-2.643*** (0.250)	-2.767*** (0.246)	-2.532*** (0.254)
Bilateral FE	YES	YES	YES	YES	YES	YES	YES
Observations	347,537	339,137	337,909	337,909	345,481	347,537	337,765
R-squared	0.685	0.682	0.681	0.681	0.684	0.685	0.682

Notes: (1) Regressions are run using linear probability estimation method. (2) Errors are clustered by recipient and donor pairs. (3) Robust standard errors in parentheses. (4) *** p<0.01, ** p<0.05, * p<0.1 (5) The dependent variable is the probability of trading. (6) The reference category is East Asia and Pacific. ECA stands for Europe and

Extensive Margin by Income

- Low-income countries are more likely to benefit from AfT to increase their exports to donor countries than countries with higher income levels.
- This could be justified by the initial presence of relatively high structural constraints affecting these countries' capacity to develop the necessary trade-related regulations, infrastructure and productive sectors enabling them to integrate into the global market.

Table 4: Second step – Impact of AfT on Trade – Extensive Margin of Trade (by income level)

	Rule of Law	Cont. Corruption	Gov. Effec.	Reg. Quality	Pol. Stab.	Voice Account.	WGI
Ln(GDP) origin	0.0193 (0.0128)	0.00576 (0.0131)	0.00375 (0.0131)	0.00464 (0.0132)	0.00934 (0.0129)	0.0172 (0.0127)	0.00179 (0.0131)
Ln(GDP) dest.	0.125*** (0.00601)	0.130*** (0.00613)	0.129*** (0.00619)	0.129*** (0.00622)	0.129*** (0.00600)	0.127*** (0.00597)	0.132*** (0.00621)
Aid	0.0585*** (0.0103)	0.0550*** (0.0102)	0.0542*** (0.0101)	0.0542*** (0.0102)	0.0547*** (0.0102)	0.0574*** (0.0102)	0.0552*** (0.0103)
Institution	-0.00798*** (0.00308)	0.00238 (0.00286)	0.0109*** (0.00298)	0.00224 (0.00294)	-0.000450 (0.00180)	-0.00504 (0.00317)	0.00434 (0.00421)
Institution*Aid	-0.00336** (0.00136)	-0.00451*** (0.00124)	-0.00357*** (0.00128)	-0.00322** (0.00132)	-0.000637 (0.000832)	-0.00383*** (0.00134)	-0.00447*** (0.00170)
LI*Aid	0.00591 (0.0113)	0.0201* (0.0112)	0.0232** (0.0112)	0.0226** (0.0112)	0.0125 (0.0112)	0.00789 (0.0112)	0.0242** (0.0112)
LMI*Aid	-0.00741 (0.00940)	0.00353 (0.00931)	0.00413 (0.00923)	0.00366 (0.00928)	-0.00170 (0.00935)	-0.00451 (0.00938)	0.00463 (0.00927)
UMI*Aid	-0.0397*** (0.00899)	-0.0291*** (0.00888)	-0.0275*** (0.00880)	-0.0291*** (0.00884)	-0.0323*** (0.00893)	-0.0355*** (0.00895)	-0.0284*** (0.00884)
Constant	-2.737*** (0.247)	-2.548*** (0.253)	-2.477*** (0.255)	-2.499*** (0.255)	-2.605*** (0.251)	-2.736*** (0.247)	-2.485*** (0.255)
Bilateral FE	YES	YES	YES	YES	YES	YES	YES
Observations	347,537	339,137	337,909	337,909	345,481	347,537	337,765
R-squared	0.685	0.682	0.681	0.681	0.684	0.685	0.682

Notes: (1) Regressions are run using linear probability estimation method. (2) Errors are clustered by recipient and donor pairs. (3) Robust standard errors in parentheses. (4) *** p<0.01, ** p<0.05, * p<0.1 (5) The dependent variable is the probability of trading. (6) LI stands for Low Income countries, LMI for Lower Middle-Income countries and UMI for Upper Middle-Income countries. The reference category is High Income countries.

Empirical Findings: Intensive Margin - Overall

Table 5: Second step – Impact of AfT on Trade – Intensive Margin of Trade

	Cont.			Voice			
	Rule of Law	Corruption	Gov. Effec.	Reg. Quality	Pol. Stab.	Account.	WGI
Ln(GDP) origin	1.502*** (0.0998)	1.498*** (0.0983)	1.479*** (0.0981)	1.494*** (0.0982)	1.467*** (0.0943)	1.509*** (0.0967)	1.501*** (0.0992)
Ln(GDP) dest.	1.367*** (0.0760)	1.365*** (0.0787)	1.375*** (0.0786)	1.369*** (0.0769)	1.386*** (0.0768)	1.353*** (0.0757)	1.362*** (0.0775)
Aid	-0.161*** (0.0550)	-0.162*** (0.0547)	-0.201*** (0.0561)	-0.169*** (0.0577)	-0.209*** (0.0586)	-0.139** (0.0592)	-0.162*** (0.0538)
Institution	0.0555 (0.0410)	0.127*** (0.0343)	-1.15e-05 (0.0313)	0.00830 (0.0373)	0.0121 (0.0201)	0.135*** (0.0363)	0.0813* (0.0453)
Institution*Aid	-0.0421** (0.0165)	-0.0303** (0.0118)	-0.00993 (0.0128)	-0.0347*** (0.0131)	0.00147 (0.00729)	-0.0454*** (0.0126)	-0.0416** (0.0185)
Constant	-63.01*** (2.152)	-62.96*** (2.104)	-62.52*** (2.102)	-62.81*** (2.110)	-62.50*** (2.081)	-62.95*** (2.093)	-62.88*** (2.118)
Bilateral FE	YES	YES	YES	YES	YES	YES	YES
Observations	401,578	392,172	391,108	391,108	399,689	401,465	390,699

Notes: (1) Regressions are run using Poisson Pseudo-Maximum Likelihood estimation method with high dimension fixed effects. (2) Errors are clustered by recipient and donor pairs. (3) Robust standard errors in parentheses. (4) *** p<0.01, ** p<0.05, * p<0.1. (5) The dependent variable is the value of exports from country i to country j.

Intensive Margin by Region

- Most of the region benefit compared to East Asia and Pacific

Table 6: Second step– Impact of AfT on Trade – Intensive Margin of Trade (by region)

	Rule of Law	Cont. Corruption	Gov. Effec.	Reg. Quality	Pol. Stab.	Voice Account.	WGI
Ln(GDP) origin	0.796*** (0.172)	0.749*** (0.171)	0.717*** (0.172)	0.742*** (0.168)	0.704*** (0.167)	0.740*** (0.170)	0.781*** (0.176)
Ln(GDP) dest.	1.405*** (0.0839)	1.441*** (0.0855)	1.457*** (0.0836)	1.444*** (0.0827)	1.477*** (0.0807)	1.438*** (0.0803)	1.409*** (0.0862)
Aid	0.215** (0.0960)	0.179* (0.0971)	0.172* (0.0989)	0.206** (0.0931)	0.148 (0.102)	0.193* (0.107)	0.206** (0.0971)
Institution	0.0100 (0.0373)	0.0799*** (0.0274)	-0.0172 (0.0261)	-0.0540* (0.0320)	0.00985 (0.0203)	0.0359 (0.0324)	-5.77e-05 (0.0408)
Institution*Aid	-0.0729*** (0.0214)	-0.0305* (0.0178)	-0.0298 (0.0213)	-0.0567*** (0.0217)	-0.0101 (0.0116)	-0.0308* (0.0161)	-0.0662*** (0.0243)
ECA*Aid	0.575*** (0.0745)	0.583*** (0.0730)	0.585*** (0.0746)	0.573*** (0.0742)	0.595*** (0.0743)	0.567*** (0.0792)	0.575*** (0.0747)
LAC*Aid	0.375*** (0.0947)	0.367*** (0.0921)	0.378*** (0.0915)	0.356*** (0.0879)	0.384*** (0.0928)	0.353*** (0.0985)	0.364*** (0.0945)
MENA*Aid	0.640*** (0.110)	0.645*** (0.113)	0.657*** (0.114)	0.654*** (0.112)	0.648*** (0.116)	0.646*** (0.114)	0.653*** (0.110)
SA*Aid	0.288*** (0.0578)	0.355*** (0.0576)	0.352*** (0.0576)	0.347*** (0.0575)	0.360*** (0.0622)	0.323*** (0.0658)	0.333*** (0.0559)
SSA*Aid	0.509*** (0.180)	0.490*** (0.179)	0.499*** (0.185)	0.507*** (0.177)	0.480** (0.190)	0.472** (0.186)	0.497*** (0.183)
Constant	-45.04*** (3.709)	-44.86*** (3.692)	-44.27*** (3.729)	-44.55*** (3.634)	-44.52*** (3.761)	-44.45*** (3.725)	-44.73*** (3.770)
Bilateral FE	YES	YES	YES	YES	YES	YES	YES
Observations	305,824	300,212	299,306	299,306	304,281	305,690	299,086

Notes: (1) Regressions are run using Poisson Pseudo-Maximum Likelihood estimation method with high dimension fixed effects. (2) Errors are clustered by recipient and donor pairs. (3) Robust standard errors in parentheses. (4) *** p<0.01, ** p<0.05, * p<0.1. (5) The dependent variable is the value of exports from country i to country j. (6) The

Intensive Margin by Income

Table 7: Second step – Impact of AfT on Trade – Intensive Margin of Trade (by income level)

	Rule of Law	Cont. Corruption	Gov. Effec.	Reg. Quality	Pol. Stab.	Voice Account.	WGI
Ln(GDP) origin	0.856*** (0.202)	0.800*** (0.198)	0.753*** (0.197)	0.781*** (0.187)	0.752*** (0.193)	0.805*** (0.191)	0.826*** (0.204)
Ln(GDP) dest.	1.450*** (0.0902)	1.479*** (0.0931)	1.510*** (0.0896)	1.488*** (0.0878)	1.524*** (0.0858)	1.452*** (0.0838)	1.452*** (0.0934)
Aid	0.728*** (0.108)	0.743*** (0.106)	0.721*** (0.109)	0.744*** (0.103)	0.719*** (0.109)	0.733*** (0.107)	0.732*** (0.109)
Institution	-0.0299 (0.0409)	0.107*** (0.0326)	-0.0538* (0.0299)	-0.0724** (0.0359)	0.000423 (0.0248)	0.0728* (0.0397)	-0.0208 (0.0453)
Institution*Aid	-0.0703*** (0.0248)	-0.0328 (0.0200)	-0.0247 (0.0235)	-0.0606** (0.0250)	-0.00456 (0.0135)	-0.0514*** (0.0148)	-0.0694** (0.0278)
Low Inc.*Aid	0.108 (0.149)	0.0821 (0.148)	0.0953 (0.152)	0.144 (0.153)	0.0618 (0.151)	0.100 (0.150)	0.133 (0.149)
LMI*Aid	-0.207*** (0.0775)	-0.205** (0.0808)	-0.207*** (0.0781)	-0.181** (0.0774)	-0.238*** (0.0813)	-0.178** (0.0781)	-0.182** (0.0784)
UMI*Aid	-0.508*** (0.0565)	-0.542*** (0.0602)	-0.536*** (0.0617)	-0.511*** (0.0591)	-0.557*** (0.0634)	-0.484*** (0.0676)	-0.502*** (0.0572)
Constant	-47.77*** (4.499)	-47.24*** (4.394)	-46.57*** (4.417)	-46.73*** (4.194)	-46.99*** (4.513)	-46.56*** (4.314)	-46.99*** (4.521)
Bilateral FE	YES	YES	YES	YES	YES	YES	YES
Observations	305,824	300,212	299,306	299,306	304,281	305,690	299,086

Notes: (1) Regressions are run using Poisson Pseudo-Maximum Likelihood estimation method with high dimension fixed effects. (2) Errors are clustered by recipient and donor pairs. (3) Robust standard errors in parentheses. (4) *** p<0.01, ** p<0.05, * p<0.1. (5) The dependent variable is the value of exports from country i to country j. (6) LI

Outline

- Data and Stylized Facts
- Methodology
- Empirical Findings
- Conclusion

Conclusion

- AfT are aid flows initially designed to assist developing countries increase their exports. They also help developing countries enhance their overall infrastructure and productive capacities and review their trade policies in order to fit in the international market.
- While aid for trade flows can be politically motivated, its effect will depend on the quality of institutions.
- There is a heterogeneity among countries and regions.

Policy implications

- The importance of reforming institutions as they determine the impact of aid for trade flows (similar to the literature on institutional curse of natural resources).
- Further research: type of aid for trade flows.
- Tailoring aid for trade flows to the needs of low income countries (especially for trade policy, trade facilitation and regional integration).
- Not only financial flows. Need to have technical assistance, especially when it comes to trade facilitation for instance.

Thank you for your attention