EFFECTS OF AID FOR TRADE ON POVERTY, SECTORAL EMPLOYMENT AND ECONOMIC GROWTH IN DEVELOPING COUNTRIES

By

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Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia, in Fulfilment of the Requirements for the Degree of Doctor of Philosophy

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Chairman : Professor Law Siong Hook, PhD
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According to the OECD Creditor Reporting System (CRS), approximately 60 donors provided a total of 409 USD billion as Aid for Trade (AfT) inflows by 2017, to assist recipient countries in constructing supply-side capability and trade-related infrastructure that they require to broaden their trade. Moreover, effective utilization of these inflows enhances growth, creates job possibilities, and reduces poverty. Despite these large amounts of AfT inflows these nations continue to experience low growth and employment rates, in addition to high poverty rates. In light of this, this study aims to assess the effects of AfT inflows on poverty, sectoral employment shares, and economic growth in these recipient countries. Two methodologies were used to achieve the stated objectives, namely the two-step system Generalized Method of Moments (GMM) approach and the panel Quantile Regression approach.

The sample of the study covered 60 countries for the first and 75 for the third objectives, while the second objective covered 93 countries. The 2005-2018 time period was applied for all objectives. The empirical results of the first objective demonstrated that aggregate AfT inflows including its two categories (AfT for economic infrastructure, for productive capacity building) have positive impacts on alleviating both poverty headcount and the poverty gap ratios over the full sample, particularly the high-income recipients. In contrast, AfT for trade policy and regulations appear to reduce poverty, particularly in the highest poverty rates for low-income recipients. AfT productive capacity building appears to reduce poverty rates the most, while AfT for policy and regulations was found to have the weakest positive impact compared to the categories.

Secondly, regarding the sectoral employment shares, the empirical results revealed that total AfT, AfT for economic infrastructure, and AfT for productive capacity building boost both the agricultural and industrial employment shares, particularly the industrial

employment share. This effect is far larger on industrial employment share in countries that rely the most on the industry in their economy (higher-income recipients). In contrast, it is only positive in the case of agricultural employment in the countries that rely the most on agriculture (lower-income recipients). However, AfT for trade policy and regulations only benefits the industrial employment share, particularly in the low-income recipients. Furthermore, the AfT interaction with FDI only increases the agricultural employment rates in the case of the low-income recipients, and the industrial employment rates in the higher-income recipients.

Lastly, the empirical findings of the third objective suggested the significant effect of aggregate AfT on the receiver countries' economic growth, precisely, the lower-income countries. In terms of its subcategories, AfT for productive capacity building generates the largest beneficial effect on the economic growth of the receiver countries followed by AfT for trade policy and regulation, while AfT for economic infrastructure was observed to have the weakest positive effect. Furthermore, AfT interaction with institutional variables was found to be negative. However, these coefficients appear to converge towards positive in the case of countries with better institutional quality (high-income recipients). Therefore, Donors may consider providing higher AfT notably AfT for productive capacity buildings, and AfT for trade policy and regulations to improve the quality of institutions and governance in the recipient countries. Moreover, recipient countries might also strengthen their institutions and promote good governance. This would result in a more efficient allocation of AfT inflows.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

KESAN BANTUAN UNTUK PERDAGANGAN TERHADAP KEMISKINAN, PEKERJAAN SEKTOR DAN PERTUMBUHAN EKONOMI DI NEGARA-NEGARA MEMBANGUN

Oleh

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Menurut Sistem Pelaporan Pemiutang OECD (CRS), kira-kira 60 buah negara penderma menyediakan sejumlah USD409 bilion sebagai aliran masuk Bantuan untuk Perdagangan (AfT) menjelang 2017, untuk membantu negara penerima dalam membina keupayaan bahagian bekalan dan infrastruktur berkaitan perdagangan yang mereka perlukan untuk meluaskan perdagangan mereka. Selain itu, penggunaan berkesan aliran masuk ini meningkatkan pertumbuhan, mewujudkan peluang pekerjaan, dan mengurangkan kemiskinan. Walaupun jumlah aliran masuk AfT yang besar ini, negara-negara ini terus mengalami kadar pertumbuhan dan pekerjaan yang rendah, di samping kadar kemiskinan yang tinggi. Berdasarkan perkara ini, kajian ini bertujuan untuk menilai kesan aliran masuk AfT ke atas kemiskinan, bahagian guna tenaga dalam sektor dan pertumbuhan ekonomi di negara penerima ini. Dua metodologi telah digunakan untuk mencapai objektif yang dinyatakan iaitu sistem dua langkah kaedah "*Generalized Method of Moments" (GMM)* dan pendekatan "Panel Quantile Regression".

Sampel kajian meliputi 60 buah negara untuk yang pertama dan 75 buah negara untuk objektif ketiga, manakala objektif kedua meliputi 93 buah negara. Tempoh masa 2005-2018 digunakan untuk semua objektif. Keputusan empirik objektif pertama menunjukkan bahawa agregat aliran masuk AfT termasuk dua kategori (AfT untuk infrastruktur ekonomi, untuk pembinaan kapasiti produktif) mempunyai kesan positif dalam mengurangkan jumlah kemiskinan dan nisbah jurang kemiskinan ke atas sampel penuh, terutamanya bagi penerima yang berpendapatan tinggi. Sebaliknya, AfT untuk dasar dan peraturan kelihatan mengurangkan kemiskinan, terutamanya dalam kadar kemiskinan tertinggi bagi penerima berpendapatan rendah. Pembinaan kapasiti produktif AfT paling banyak mengurangkan kadar kemiskinan, manakala AfT untuk dasar dan peraturan didapati mempunyai kesan positif yang paling lemah berbanding dengan kategori yang lain.

Kedua, mengenai bahagian guna tenaga sektor, keputusan empirik menunjukkan bahawa agregat AfT, iaitu AfT untuk pembinaan kapasiti produktif, dan AfT untuk infrastruktur ekonomi meningkatkan kedua-dua bahagian pekerjaan sector pertanian dan perindustrian, terutamanya bahagian pekerjaan industri. Kesan ini jauh lebih besar pada bahagian pekerjaan industri di negara yang paling bergantung kepada industri dalam ekonomi mereka (penerima berpendapatan tinggi). Sebaliknya, ia memberi kesan positif ke atas kes pekerjaan pertanian di negara yang paling bergantung kepada pertanian (penerima berpendapatan rendah). Bagaimanapun, AfT untuk dasar dan peraturan perdagangan hanya memanfaatkan bahagian pekerjaan industri, terutamanya dalam penerima yang berpendapatan rendah. Tambahan pula, interaksi AfT dengan FDI hanya meningkatkan kadar guna tenaga di sektor pertanian dalam kes penerima berpendapatan rendah, dan kadar pekerjaan di sektor industri bagi penerima berpendapatan tinggi.

Akhir sekali, penemuan empirik objektif ketiga mencadangkan kesan ketara aliran masuk AfT agregat ke atas pertumbuhan ekonomi negara penerima, iaitu negara berpendapatan rendah. Dari segi subkategorinya, AfT untuk pembinaan kapasiti produktif menjana impak positif terbesar kepada pertumbuhan ekonomi negara penerima diikuti oleh AfT untuk dasar dan peraturan perdagangan, manakala AfT untuk infrastruktur ekonomi diperhatikan mempunyai kesan positif yang paling lemah. Tambahan pula, interaksi AfT dengan pembolehubah institusi didapati negatif. Bagaimanapun, pekali ini kelihatan menumpu ke arah positif dalam kes negara yang mempunyai kualiti institusi yang lebih baik (penerima berpendapatan tinggi). Oleh itu, penderma boleh mempertimbangkan untuk menyediakan AfT yang lebih tinggi terutamanya AfT untuk pembangunan kapasiti yang produktif, dan AfT untuk dasar dan peraturan untuk meningkatkan kualiti institusi dan tadbir urus di negara penerima. Selain itu, negara penerima perlu juga mengukuhkan institusi mereka dan menggalakkan tadbir urus yang baik. Ini akan menghasilkan peruntukan aliran masuk AfT yang lebih cekap.

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This thesis was submitted to the Senate of Universiti Putra Malaysia and has been accepted as fulfilment of the requirement for the degree of Doctor of Philosophy. The members of the Supervisory Committee were as follows:

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AfT	Aid for Trade
AfTINF	AfT for economic infrastructure
AfTPCB	AfT for productive capacity building
AfTPOL	AfT for trade policy and regulations
AfTTOT	Total AfT inflows
ARDL	Autoregressive Distributive Lag
BPT	Big Push Theory BPT
CRS	Creditor Reporting System
DAC	Development Assistance Committee
EPR	Employment to Population Ratio
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GDPC	Gross Domestic Product per capita
GMM	Generalized Method of Moments
HDI	Human Development Index
IDB	Inter-American Development Bank
ILO	International Labour Organization
LDCs	The least developed countries
LICs	Low-Income Countries
LMICs	lower-middle-income countries
MFECM	McKinnon Foreign Exchange Constraint Model
MICs	Middle income counties
MTN	Multilateral Trade Negotiation
NAFTA	North American Free Trade Agreement
ODA	Official development assistance
OECD	Organization of Economic Corporation and Development
OPEC	Organization of the Petroleum Exporting Countries

PWT	Penn World Tables
QR	Quantile Regression
R&D	Research and Development
RGDPC	Real Gross Domestic Product per capita
SDGs	Sustainable Development Goals
SSA	Sub-Saharan Africa
UMICs	Upper-Middle income countries
UN	United Nation
UNCTAD	United Nations Conference on Trade and Development
US	The United States
USD	United States Dollars
WDI	World Development Indicators
WTO	World Trade Organization

CHAPTER 1

INTRODUCTION

Since the foundation of the Development Assistance Committee (DAC) in 1961, the members of the DAC were persuaded to enhance financial and technical aid to developing and less developed countries, by adjusting this aid to their demands and desires in the form of loans or grants on suitable terms (OECD, 2018b). In consequence, Official development assistance (ODA), more generally referred to as foreign aid (Moreira,2005), began to flow dramatically in these nations, with average yearly disbursements ranging from US$ 5.3 billion in the 1960s to US$ 22.8 billion in the 1980s[1]. The net ODA continued to grow over the past 48 years, to reach 146.6 billion in 2017 globally as the Organization of Economic Corporation and Development (OECD) reports (OECD, 2018).

Going all the way back to the Multilateral Trade Negotiation (MTN) in Uruguay round, developing nations started seeking monetary support for compromises made in trade liberalization deals, along with an expansion in ODA, to help promote incorporation into the world trading regime (Martínez-Zarzoso et al., 2017). In order to serve the latter objective, the World Trade Organization (WTO) members in collaboration with the OECD launched a new type of ODA inflows which is related to trade activities was launched by the name "Aid for Trade (AfT)" in 2005 during the WTO Hong Kong Ministerial Declaration (Gnangnon, 2016).

The WTO Task Force (2006) states that "Aid for Trade is allocated to assist emerging nations to increase their exports of products and services, in order to incorporate into the international trading regime and benefit from trade freedom and stronger market accessibility". In addition to increasing multilateral trade policy reforms and more fairly distributing international gains across and among the recipient nations, effective AfT would boost economic growth and reduce poverty in recipient nations (OECD & WTO, 2013; page 146). Furthermore, AfT inflows assist developing countries in enhancing their productivity, expanding and diversifying their trade, attracting foreign direct investment inflows, and creating jobs for both males and females (OECD & WTO, 2019; page 3).

Since its launch in 2005, the AfT initiative has succeeded in attracting significant financial assistance as well as the cooperation of numerous nations. Japan, the Asian Development Bank, the World Bank, the European Union (EU), Germany, the United States (US), France, the United Kingdom, the Netherlands, and the African Development Bank are just a few of the roughly 60 suppliers who have reported their official development aid to the OECD Creditor Reporting System (CRS) and disbursed a total of 409 USD billion as a type of ODA to fund AfT projects (OECD & WTO, 2019; Pages

[1] Calculated using data from OECD's International Development Statistics online **www.oecd.org/dac/stats/idsonline**

57,459). From 14.9 USD billion in the period from 2002 to 2005 to 42.2 USD billion in 2017, these disbursements climbed by an average of 9.3% per year (OECD & WTO, 2019). Such annual growth in AfT disbursements raise one important question: have recipient countries been able to decrease their rates of poverty, expand their labor ratios, and accelerate their economic growth, as a result of the increase in AfT disbursements?.

To attempt to respond to this important matter, this study explores the impact of AfT inflows on poverty, sectoral employment shares, and economic growth in the AfT recipient countries. To the best of our knowledge, a considerable amount of empirical works have been conducted on the effect of overall ODA on poverty (For instance, Burnside & Dollar, 2000; Arndt et al., 2010, 2015; Sachs, 2005; Collier & Dollar, 2002; Alvi & Senbeta, 2012; Kaya et al., 2013; Mahembe & Odhiambo 2020), and economic growth (For instance, Gyimah-Brempong et al., 2012; Sothan 2018; Kargbo & Sen 2014; Sethi et al., 2019) in the recipient countries. As for the specific effect of one important type of ODA, which represents the AfT inflows (OECD & WTO, 2009, 2017) there exists a limitation in the empirical investigations.

On the other hand, numerous empirical works have been done on the effectiveness of AfT since its establishment in 2005 (e.g., Calì and te Velde 2011; H; Hyun-Hoon Lee et al., 2015; H. Lee & Ries, 2016; Martínez-Zarzoso et al .,2017; Gnangnon 2018f; Kim 2019; Ly-My et al., 2021). However, the most of these empirical analyses have concentrated mostly on the influence of the AfT inflows particularly on trade related outcomes (such as, trade costs, export diversification, services trade…etc.). Therefore, the empirical investigation on the influence of AfT on poverty, sectoral employment shares, and growth rates is still limited and deserves a particular attention.

1.1 Background of the study

1.1.1 Definition of the Aid for Trade inflows

AfT inflows are indeed a component of ODA funds that are allocated for initiatives and programs and activities relating to trade (OECD & WTO, 2013; page 145). In order to take advantage of new prospects in international trade, emerging economies' trade negotiators at the WTO's 2005 Hong Kong Ministerial Conference were evaluated on their ability to boost exports and enhance their trade productive capacity (OECD & WTO, 2013; page 146). According to the WTO (2006) Task Force, "Aid for Trade is allocated to assist emerging nations to increase their exports of products and services, in order to incorporate into the international trading regime and benefit from trade freedom and stronger market accessibility". In addition to increasing multilateral trade policy reforms and more fairly distributing international gains across and among the recipient nations, effective AfT would boost economic growth and reduce poverty in recipient nations" (OECD & WTO, 2013; Page 146). Other targets, which are mostly unaddressed in the Task, could be used to assess AfT effectiveness in addition to growing exports as an economic growth driver. Increasing the value of exports, diversifying exports, and fostering South-South and intraregional commerce. In addition, lowering trade costs can be

achieved by enhancing the effectiveness of good infrastructure utilization and introducing new ways to boost productivity and developing trade-related organizations, rules, and regulations (OECD & WTO, 2013; page 147).

1.1.2 Categories of Aid for Trade inflows

In broad terms, ODA is identified as AfT when programs and initiatives are defined as trade-related development objectives in the recipient country's national plans. The WTO (2006) Task Force stated that aid for trade includes the listed categories: i) Trade policy and regulatory technical aid (e.g., assisting countries in developing trade strategy, negotiating trade agreements, and implementing their achievements). ii) trade-related infrastructure aid (eg.: for example, constructing highways, ports, and telecommunication systems to integrate domestic industries into the international economy). iii) productive capacity-building aid involving trade development, assisting the private market to leverage their competitive benefits and broaden their exports. iv) trade-related adjustment: Aiding developing nations with the costs of trade liberalization, including tariff reduction, preference degradation, and lower terms of trade. v) other trade-related needs: if specified in recipient countries' domestic development agendas as trade-related development priorities. (OECD & WTO, 2009: Page 307).

The Creditor Reporting System (CRS) is a database that covers over 90% of all ODA and is widely regarded as the most reliable source of data for monitoring international AfT flows. The CRS aid activity database was founded in 1967, and collects statistics on ODA and other government flows to developing nations. It is the most frequently used database of on aid programs in the world by governments, organizations, and researchers working in the development domain. The CRS is used by the OECD to maintain the count of certain policy matters, such as AfT. The OECD manages the database and compiles, categorizes, and validates the data's accuracy (OECD & WTO, 2009; Annex 2; Pages A2.3 to A2.5).

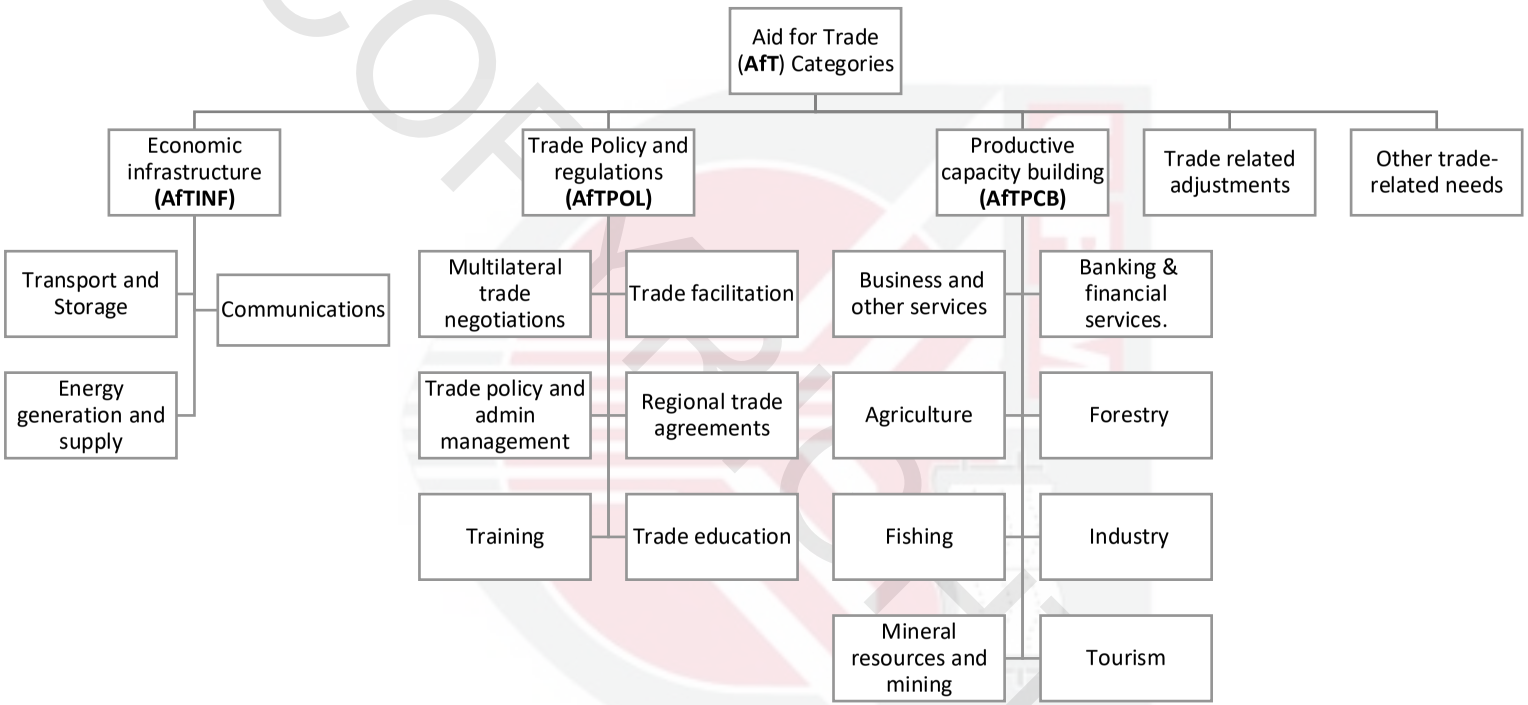

Figure 1.1 : Aid for Trade Categories
(Source : OECD 2013)

1.1.3 Aid for Trade disbursements (2002-2019)

1.1.3.1 Aid for Trade total disbursements (2002-2019)

During the 2002–2019 time period, almost 60 donors—including, among others, the World Bank, Japan, the United States, the EU, the United Kingdom, and the Asian Development Bank—distributed USD 552 billion to 146 beneficiaries in a variety of countries and locations. AfT disbursements notably increased by USD 6 billion during the 2002–2005 period, from USD 13.1 billion in 2002 to USD 19.3 billion in 2005. Additionally, overall AfT disbursements in 2015 totalled 41.6 billion USD, an increase of USD 11 billion above 2010 and USD 28.5 billion above 2002. Additionally, total AfT expenditures increased by USD 4 billion, reaching USD 45.5 billion in 2019, or over double as much as in 2005 (See figure 1.2 below).

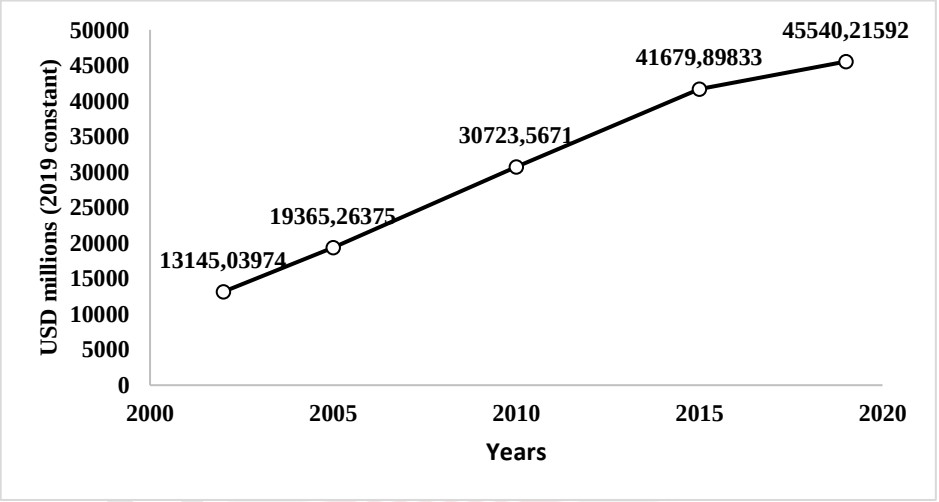

Figure 1.2 : Aid for Trade total disbursements (2002-2019)
(Source: OECD-DAC CRS: Aid Activities database 2021, DOI: https://stats.oecd.org/Index.aspx?ThemeTreeID=3&lang=en)

1.1.3.2 Aid for Trade disbursements by category (2002-2019)

A total of USD 10,3 billion was distributed by 60 suppliers in the same year that the AfT program was started to assist 146 countries, including emerging and least developed nations, in building roads, ports, telecommunications networks, and improving energy supplies (AfT for economic infrastructure). Moreover, USD 8.4 billion was used to improve the country's banking and financial institutions, business environment, and agricultural, tourism, and manufacturing industries (AfT allocated to build productive capacity). Additionally, USD 540 million will be used to arrange, negotiate, and implement trade

agreements, in addition to comprehensive trade development plans (AfT allocated to trade policy and regulations).

When compared to 2005, the amount of aid given to developing productive capacity and economic infrastructure expanded by USD 4.7 billion and USD 6.2 billion, correspondingly. AfT for trade policy and regulations drew USD 1.05 billion in 2010, up 51% compared to 2005. AfT for economic infrastructure inflows achieved a total of USD 22 billion in 2015, an increase of USD 5.5 billion above 2010 and an additional USD 12.3 billion above 2005. AfT disbursements for capacity building totaled USD 18.6 billion, a boost of USD 5.5 billion above 2010. AfT for trade policy and regulations, in contrast, has lowered by USD 95 million since 2010, and worthen USD 982 million in 2015 (See figure 1.3 below).

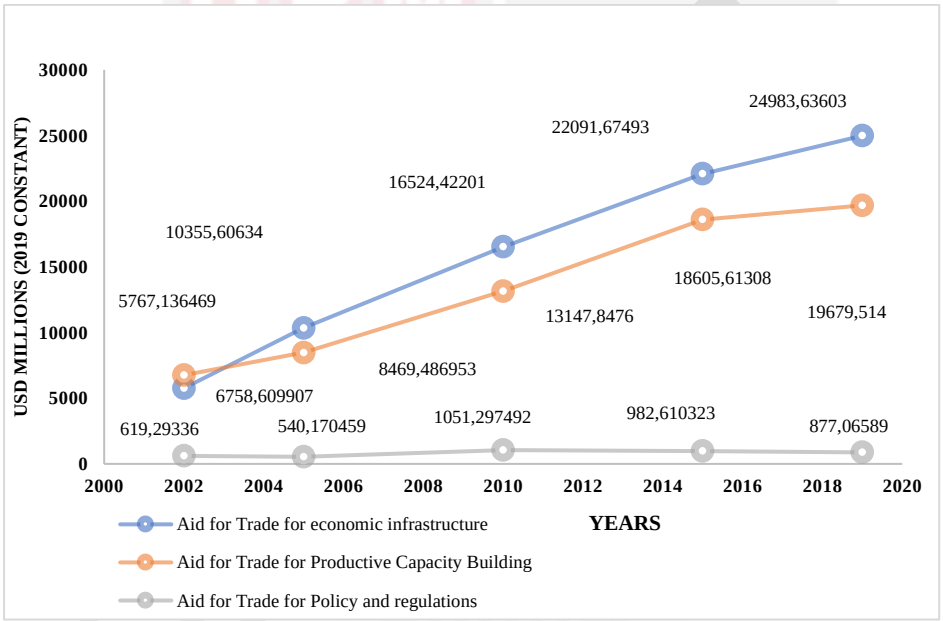

Figure 1.3 : Aid for Trade disbursements by category (2002-2019)
(Source: OECD-DAC CRS: Aid Activities database 2021, DOI: https://stats.oecd.org/Index.aspx?ThemeTreeID=3&lang=en).

1.1.4 Aid for Trade inflows providers in 2017

In terms of number, the 10 biggest AfT providers are (i.e. The Asian Development Bank, the EU, Japan, the United States, the World Bank, France, Netherlands, the United Kingdom, Germany), since 2006, they have supplied 82 percent of total disbursements. (OECD & WTO, 2019; page 59).

Table 1.1 : Top 20 providers of Aid for Trade inflows in 2017

Aid for Trade Disbursements (*USD million (2017constant)*						
Years	2006-08 avg	2009-2011 avg	2012-2014 avg	2015	2016	2017
Japan	4 040.3	4 761.0	5 906.4	6 407.7	6 317.1	8 264.1
EU institutions	2 215.3	3 859.8	6 719.9	6 491.9	7 919.1	7 151.6
International development association	3 324.1	3 854.7	4 808.6	5 682.2	4 673.4	5 888.0
Germany	1 673.2	2 558.5	3 182.4	5 193.9	4 613.7	4 522.4
France	839.0	1 092.9	1 746.1	1 504.2	1 928.8	2 470.8
United States	4 403.2	4 332.0	3 550.3	2 922.1	2 748.0	2 406.5
United Kingdom	827.6	1 177.5	1 293.4	1 960.6	1 815.7	1 918.9
African Development Bank	379.7	1 203.7	1 001.1	1 232.0	995.6	1 425.4
Asian Development Bank	..	486.7	1 252.0	1 573.2	1 498.7	1 379.9
IDB	..	354.9	563.5	521.3	373.9	737.8
United Arab Emirates	..	88.6	703.9	897.6	429.3	584.3
Korea	200.7	373.3	518.5	613.1	590.9	556.5
Netherlands	476.9	474.8	618.5	540.5	616.0	542.3
Arab Fund (AFESD)	233.6	696.7	670.6	493.0	441.2	528.6
Canada	272.8	566.2	441.3	347.3	393.8	463.5
Sweden	328.2	346.2	396.8	337.3	334.8	441.5
Australia	253.8	391.1	385.6	412.2	394.3	427.8
Norway	378.6	383.7	484.0	482.3	404.3	426.9
Kuwait	..	251.2	269.6	408.7	692.9	373.2
OPEC fund for international development	..	168.2	224.1	297.9	368.8	355.3
Sub-total	19 847.0	27 421.6	34 736.5	38 318.9	37 550.3	40 865.6
Total Aid for Trade	21 753.0	30 284.5	36 948.5	40 864.2	39 475.7	43 066.9
Top 20 share in total AfT	*91.2%*	*90.5%*	*94.0%*	*93.8%*	*95.1%*	*94.9%*

(Source : OECD/WTO, 2019; page 464)

1.1.5 Top 20 receivers of Aid for Trade inflows in 2017

The DAC List of ODA beneficiary countries include all nations and regions that are qualified for ODA. Excluding G8 members, EU members. The qualified countries for ODA inflows are recipients are low and lower middle-income nations based on the World Bank. The least developed countries (LDCs) are also among the low-income nations as classified by the United Nations (UN) (OECD & WTO, 2019; page 456).

Table 1.2 : Top 20 receiver nations of Aid for Trade inflows in 2017

Aid for Trade Disbursements *USD million (2017constant)*							
Years	Income classification	2006-08 avg	2009-2011 avg	2012-2014 avg	2015	2016	2017
India	LMIC	1 148.4	1 807.9	1 868.8	3 240.5	2 769.2	3 707.8
Turkey	UMIC	353.4	1 199.8	2 528.5	2 344.8	2 699.5	2 299.3
Bangladesh	LIC	357.9	378.8	853.5	945.5	1 055.4	1 884.8
Viet Nam	LMIC	1 007.9	1 501.5	2 474.2	2 332.6	2 176.7	1 760.0
Morocco	LMIC	401.0	720.8	1 177.9	995.7	1 722.7	1 752.1
Indonesia	LMIC	736.8	765.0	555.3	922.2	506.3	1 184.4
Kenya	LMIC	272.6	389.8	912.5	953.3	843.7	932.3
Pakistan	LMIC	340.1	425.9	1 083.4	1 759.3	900.0	928.3
Ethiopia	LIC	481.4	688.1	693.5	770.8	924.9	917.1
Afghanistan	LIC	1 055.6	1 843.2	1 175.5	856.6	818.4	809.6
Egypt	LMIC	558.6	671.7	1 349.2	883.4	1 125.7	807.5
Tanzania	LIC	381.5	611.0	863.6	863.4	750.1	797.5
Tunisia	LMIC	186.4	357.3	503.9	401.8	485.1	702.7
Nigeria	LMIC	225.7	322.6	467.2	590.2	406.1	695.4
Myanmar	LIC	15.9	45.5	174.3	328.9	474.6	529.0
Rwanda	LIC	101.7	205.8	198.2	340.5	335.9	527.1
Nepal	LIC	121.4	207.4	278.8	400.3	282.3	488.6
Mozambique	LIC	329.4	320.2	500.9	569.5	445.6	486.6
Uzbekistan	LMIC	50.7	70.2	130.6	280.8	267.4	482.3
Serbia	UMIC	230.5	435.6	535.8	420.6	440.8	475.6
Sub-total		8 356.8	12 968.3	18 325.6	20 200.5	19 430.3	22 168.1
Total Aid for Trade		21 753.0	30 284.5	36 948.5	40 864.2	39 475.7	43 066.9
Top 20 share in total Aid for Trade		*38.4%*	*42.8%*	*49.6%*	*49.4%*	*49.2%*	*51.5%*

(Source OECD & WTO, 2019; page 469)

1.1.6 Poverty in Aid for Trade recipient countries

In 1990, 36% of the global population lived in absolute poverty (US$1.90 per day in purchasing power parity terms). By 2015, the percentage has dropped to 10%, from 11.2 % in 2013. Moreover, in numbers, 736 million people lived under this line in 2015, down from approximately 2 billion in 1990. (Worldbank, 2018). Most of the advancement achieved in the last twenty-five years has occurred in East Asia and the Pacific, thanks to the Chinese economic ascent which aided millions of people in escaping absolute poverty. From a poverty rate of 62% in 1990 to less than 3% in 2015. Additionally, South Asia has made significant progress against absolute poverty in recent years, contributing to further reductions in the global rate. In 2015, the amount of poor in South Asia fell to 216 million, down from half a billion in 1990. (Worldbank, 2018).

Furthermore, many other nations with high poverty rates, such as Bangladesh, Indonesia, Nigeria India and Kenya, have expanded their class out of low-income to middle-income between 1990 and 2015. With this growth, the massive bulk of the world's poor nations have relocated from low-income to middle-income countries, accounting for approximately two-thirds of the global poor (Worldbank, 2018). Nevertheless, as more economies transition from low to middle-income levels, the population ratio shifts as well. In 2015, 50 million people resided in upper-middle-income nations, compared to 640 million in low-income nations, and 400 million in lower-middle-income nations (Worldbank, 2018). (Figure 1.4)

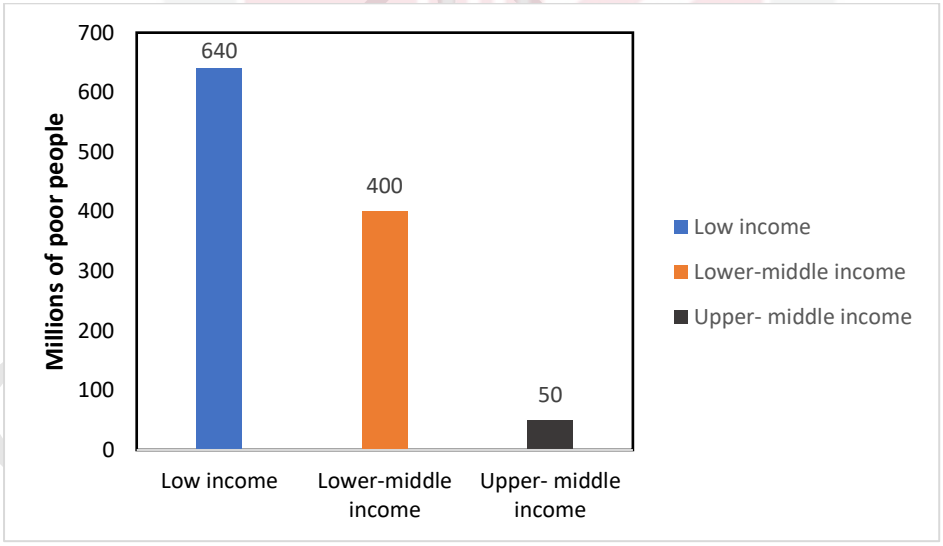

Figure 1.4 : Number of extreme poor in recipient countries
(Source : Worldbank 2018; page 29)

Poverty levels tend to reduce as countries progress and per capita GDP rises. Figure 1.5 illustrates this overall trend, with the poverty ratio falling from 42% in low-income nations to 14% in lower-middle-income nations and near to 2% in upper-middle-income nations. If further poor people could benefit from economic progress, the situation looks hopeful for ongoing poverty reduction. In contrast, almost each low-income nation is in Sub-Saharan Africa (SSA) as well as a small number of nations in other geographic areas, such as Nepal, Haiti, and Afghanistan stressing the need for these nations' economies to be stimulated and sustained

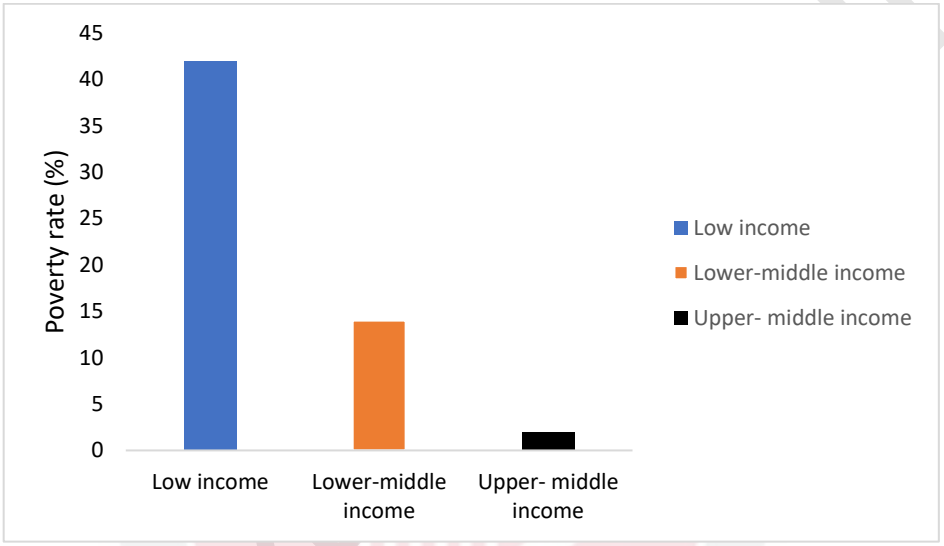

Figure 1.5 : Population-weighted poverty rate in recipient countries
(Source : Worldbank, 2018; Page 29)

Digging a little deeper into the countries with the poorest population, the heavily populated countries in South Asia, namely Bangladesh and India, and in SSA, namely Ethiopia, the Democratic Republic of Congo, and Nigeria are the five countries with the highest number of extremely poor around the world. India is considered to be the poorest country in the world, it is home to four out of every five absolute poor in South Asia. With a 13.4% poverty rate, India's 1.3 billion population led to a substantial number of absolute poor. Thus, India's poverty alleviation initiatives must remain in order to fulfil the world poverty objective (Worldbank, 2018).

1.1.7 Employment in Aid for Trade recipient countries

Approximately 57% of the world's working-age population is employed. Over the last 25 years, the worldwide employment-to-population ratio (EPR) has decreased by 4.4 % on average, with the vast remarkable declines observed in upper-middle-income nations

by 7.2 %, and by 5.1% in the case of lower-middle-income nations (Table 1.3). Furthermore, there are significant gender differences in the employment-to-population ratio around the world, indicating that women face disproportionately more barriers to employment. The female employment share, which stands at 45% in 2019, is significantly less than the male employment share that stands at 70%. Despite national as well as international income group declines over the last few decades, the gender gap remains high (Table 1.3).

Table 1.3 : Employment to population rate, gender, and income from 1994 to 2024

Country (income group)	Demographic group	level (percentage)	1994-99	1999-2004	2004-2009	2009-2014	2014-19	2019-24
World	Total	57.4	–0.8	–1.0	–1.0	–1.0	–0.6	–1.1
	Female	44.6	–0.5	–0.8	–1.0	–1.2	–0.5	–1.2
	Male	70.3	–1.1	–1.3	–1.1	–0.8	–0.8	–1.1
	Youth	35.6	–3.8	–3.0	–2.6	–3.5	–1.8	–1.2
	Adult	63.2	–0.1	–0.4	–0.8	–0.8	–0.8	–1.4
Low income	Total	67.9	–0.5	–0.3	–1.3	–1.2	–0.1	–0.3
	Female	60.7	–0.3	–0.2	–1.5	–1.1	0.5	–0.5
	Male	75.3	–0.6	–0.4	–1.1	–1.3	–0.7	–0.2
	Youth	52.1	–1.2	–0.9	–1.8	–1.6	–1.0	–0.8
	Adult	76.2	0.0	0.2	–1.1	–1.0	0.2	–0.5
Lower-middle income	Total	52.3	–0.7	–0.3	–1.2	–1.7	–1.2	–0.5
	Female	32.1	–0.4	–0.2	–1.3	–2.0	–0.7	–0.3
	Male	71.9	–1.0	–0.4	–1.1	–1.5	–1.7	–0.6
	Youth	29.2	–1.5	–1.4	–3.4	–4.0	–2.4	–1.0
	Adult	60.3	–0.5	–0.1	–0.8	–1.5	–1.3	–0.8
Upper-middle income	Total	60.3	–1.7	–2.2	–1.2	–0.8	–1.4	–2.0
	Female	50.7	–1.3	–1.9	–1.2	–0.9	–1.4	–2.1
	Male	70.0	–2.0	–2.5	–1.1	–0.6	–1.3	–1.9
	Youth	36.6	–7.0	–5.9	–2.0	–4.4	–3.3	–1.9
	Adult	65.1	–0.5	–1.0	–1.3	–0.9	–1.7	–2.3

(Source : ILO, (2020; page 27)

The global gender disparity has shrunk as the female EPR has decreased by 3.9 % on average since 1994, whereas the male EPR has decreased by 5.1 per cent on average in the same time period. In low-income nations, the gender disparity is roughly 15 %, whereas, in lower-middle-income nations, it is nearly 40 % (Table 1.3). The male EPR varies slightly across nations' income levels, spanning from 75% in low-income nations to 71.9 % in lower-middle-income nations, however, the female EPR varies widely, spanning from 61% in low-income nations to just 32% in lower-middle-income nations. In contrast, in low-income nations, the large EPR for males and females within all age groups is significantly connected to the large poverty levels (World Bank, 2018). Evidently, females in low-income nations are frequently employed in irregulated agricultural works, juggling paid and unpaid domestic commitments (ILO, 2019a).

Furthermore, the youth EPR has fallen by up to 15% globally since 1994. The decline was declared in middle-income nations mostly, which is mainly because of the favourable development, and rising education enrollment. For example, in these countries, the percentage of enrollment in upper secondary schools increased from 49% in 2000 to 65% in 2018 (UIS, 2019). Over the last five years, the pattern of decreasing youth EPR was inverted in high-income nations, due to robust employment growth that has made it easier for youths to join the labour market rather than staying in education or becoming unemployed

1.1.7.1 Employment in agricultural and industrial sectors

In developing nations, the agricultural sector continues to hire the greatest number of people, accounting for just below 70% of all workers in 2017 (Figure 1.6). The agriculture sector employs nearly 40% of workers in lower-middle-income nations, while it employs only 16% in upper-middle-income nations. Agriculture's employment share is declining across all levels of economic development, with the decline expected to be more emphasised in lower-middle-income nations, falling by a supplemental 6 % by 2025. (Figure 1.6). In these countries, the decreasing trend has speeded up slightly over the last twenty years, with agricultural employment shares expected to fall by another 3.5 per cent on average until 2025 (ILO, 2018).

The industrial sectors, notably manufacturing, construction, and mining accounted for approximately 22 % of aggregate employment in lower-middle-income nations in 2017, however, it only accounted for 10% in developing nations. In upper-middle-income countries, on the other hand, the industrial sector employs 26% of the workforce (Figure 1.6). Manufacturing is by far the most crucial industrial sector, by a 16% of overall employment in upper-middle-income nations, 12% in lower-middle-income nations, and 6% in developing nations. Construction accounts for 2% of overall employment in developing nations and near to 9% in lower-middle and upper-middle-income nations (Figure 1.6). Mining, quarrying, and utilities employ only a small proportion of the workforce due to their high capital intensity

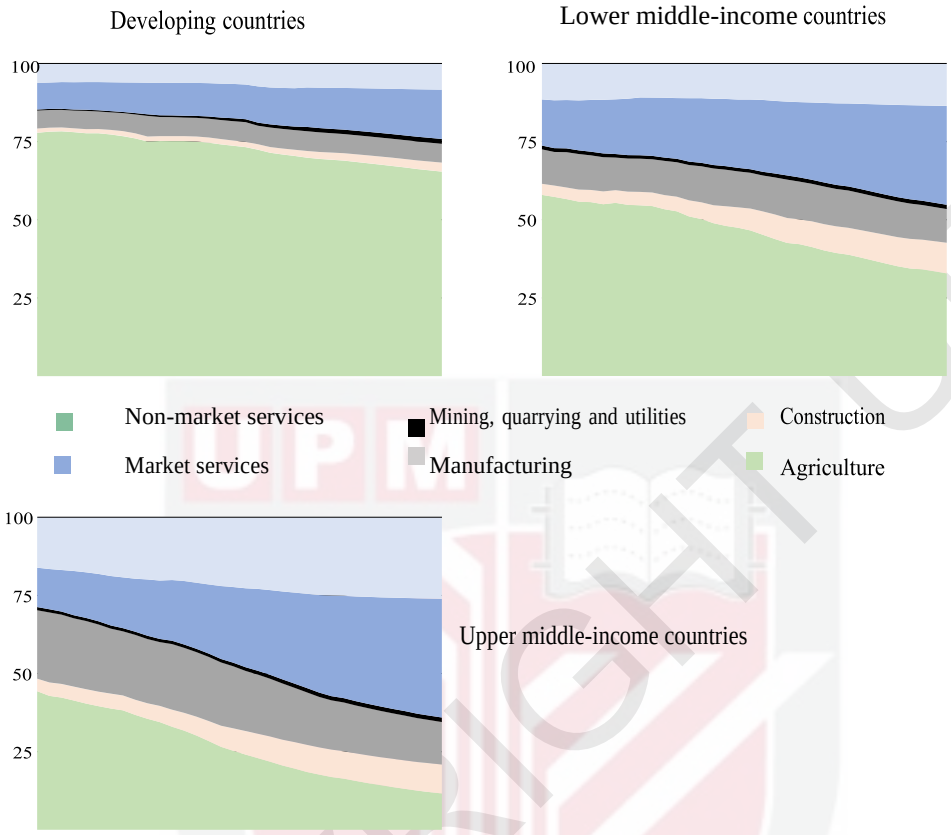

Figure 1.6 : Employment rates by accumulated income group and sector, 1992–2025
(Source : ILO (2018; page 31))

1.1.8 Economic growth in Aid for Trade recipient countries

Long-term growth achievement of LDCs over the last 50 years has indeed been, at best, mixed, with an overall slow and irregular record. Since the category's inception in 1971, real GDP for LDCs has more than fivefold increased, rising from approximately $200 billion in 1971 to $1,118 billion in 2019, at constant 2015 prices (Figure 1.7). This results in an annual growth rate of 3.7%, which is just marginally greater than the median global growth ratio of 3.1%. Real GDP per capita climbed from roughly $600 to $1,082 within the same time period, although at a significantly slower rate (1.3% per year) due to strong demographic growth.

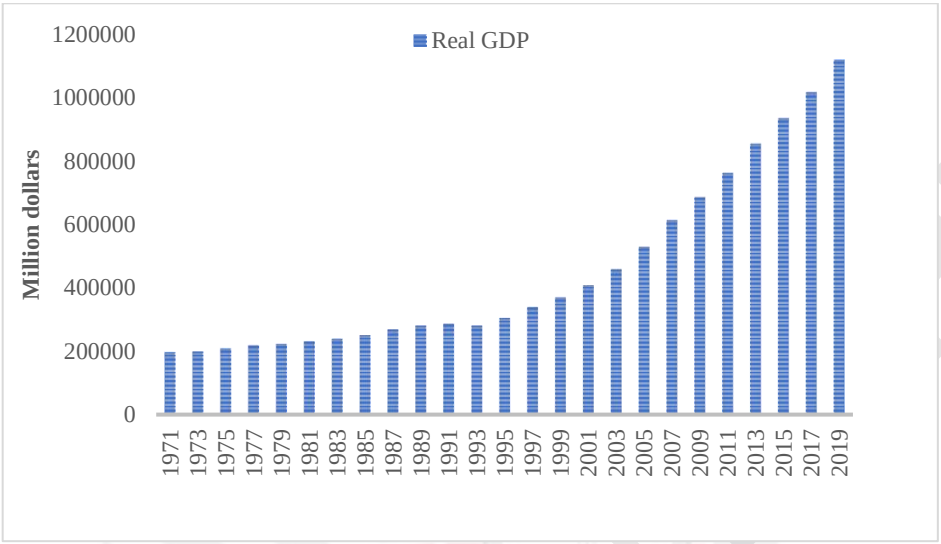

Figure 1.7 : Real GDP growth in LDCs since 1971
(Source: Author's calculation using data from UNCTADstat database, 2021. https://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx)

LDCs as a group have shown significant variation, both in terms of per capita income and underlying dynamics. Island LDCs maintained considerably higher levels of real GDP per capita than some other LDC subgroups throughout the period, despite growing at a much slower rate (reaching $1,475 per person in the 2017–2019 period, at constant 2015 prices) (figure 1.8). In contrast, Asian LDCs began with a relatively low level of income per capita in the early 1970s, and yet have more than tripled it in the past 50 years, reaching $1,274 in 2017–2019. (At constant 2015 prices). African LDCs and Haiti experienced an overall compression in the first half of the period, and while subsequent expansion more than offset the initial decline, they persist the LDC subcategory with the lowest average GDP per individual ($947).

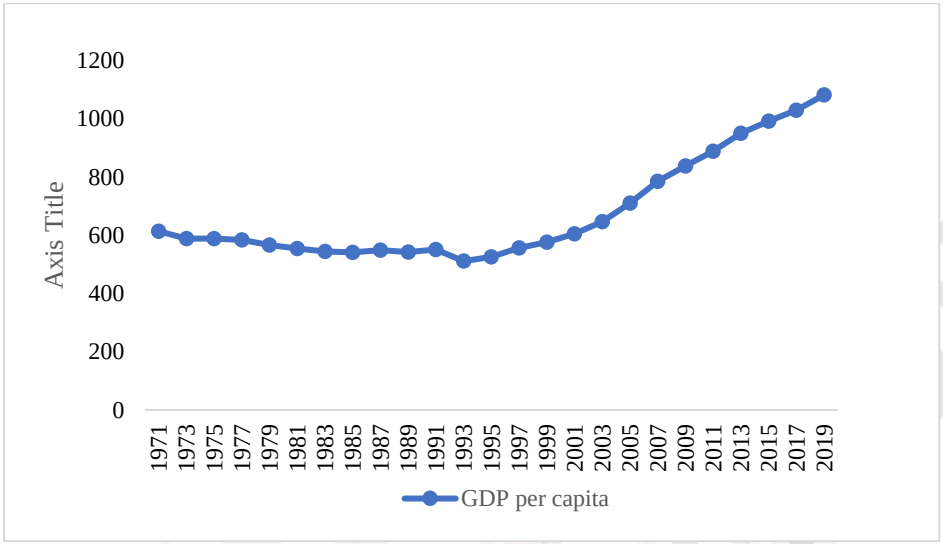

Figure 1.8 : Real GDP per capita growth in LDCs since 1971
(Source: Author's calculation utilizing data from UNCTADstat database 2021).https://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx.)

The rapid growth in low-income countries (LICs) has helped to alleviate poverty. Between 2001 and 2015, the share of the extremely poor in the LICs population fell by 16 % on average, contributing 20 %, or roughly one-third, to the global poverty headcount drop. This contribution, however, mainly represents a dramatic drop in poverty headcounts among LICs that achieved middle-income status in 2001, while hiding widely unchanged poverty headcounts among nations that persisted or became LICs (Steinbach, 2019). In 2019 LICs comprise for nearly one-tenth of the world's population. However, these countries are lands to approximately 40% of the global absolute poor. This rate is predicted to maintain high due to the fact that many of these economies are still fragile (Steinbach, 2019).

LICs growth was aided by a number of cyclical and structural variables. To name a few, the commodity price boom from 2001 to 2011, debt relaxation for roughly half of the LICs (Steinbach, 2019). Furthermore, by accessing free trade agreements, several of the 2001 LICs have enjoyed the rewards of stronger trade integration. For instance, the trade deal between Moldova and the EU has boosted exports and stimulated reforms, notably in governance, he business environment, and the financial sector (Steinbach, 2019). In SSA, participations in free trade zones helped increasing intra-regional trade, as well as FDI inflows and industrialization (Buigut, 2016; Morris & Staritz, 2017).

1.1.9 Institutional Quality in Aid for Trade recipient countries

Institutions in the developing world typically do not engage in enough activity to promote productive investments and solve the problem of poor efficiency. In these nations, constitutional rules discriminate against individuals, constitutional rights are not legitimate for the bulk of the population, the elite has unrestricted wealth and influence, and only a small percentage of the population has access to good education, credit, and manufacturing opportunities (Yıldırım & Gökalp, 2016). As a result, in emerging countries, dysfunctional institutions have a negative impact on economic growth and performance. Because of the flaws in society's framework, the effectiveness of governmental services in these countries is poor. The cost of conducting business rises when official agencies performing economic processes become more immature. Governments are fragile, and populist movements are rampant. (Yıldırım & Gökalp, 2016). Furthermore, the current institutional framework lacks the legal regulations and consequences necessary to compensate for the lack of credibility.

Latin America, where developing nations are concentrated, attracts attention as a community with a low level of self-confidence. International initiatives are likely to struggle in low-trust cultures, such as Latin America, caused of a lack of potential support. In Latin America, a lack of trust found it challenging to stimulate entrepreneurship, limiting chances for innovation and growth (Fellner, 2008; 11-24). The gaps, on the other hand, have been growing, revealing a growing disparity between the developed and the developing world, as well as among various assemblages of emerging economies. Efficient institutions capable of designing and executing development policies are essential, not just for creating economic progress, but also for guaranteeing its inclusiveness and stability. Advanced economies often have greater Productive Capacities Index (PCI) values, whereas developing countries have a lot of volatility and divergence. (UNCTAD, 2021b).

The PCI indicator is a useful instrument for detecting important economic development obstacles and reshaping policy interventions, as well as motivations, to overcome them. PCI is also a reliable and comprehensive instrument for monitoring progress against national and international development targets and objectives, such as the Sustainable Development Goals (UNCTAD, 2021b; Page 11). Similarly, LDCs and LLDCs are at the bottom of the distribution, with limited capacity to formulate reasonable strategies and even less ability to implement them, as well as weak institutional coherence and fragmented or inconsistent laws and regulations. Conflict, corruption, and a lack of accountability plague some countries in these categories, limiting institutions' ability to function effectively. Poor institutions reflect low degrees of human capital, the usage of ICTs and similar technologies, and a particular economy's total productivity (UNCTAD, 2021b; Page 47) (see figure 1.9).

Governments can develop and promote energy and transportation facilities, promote human capital development, such as schooling, abilities, and health, improve data and tel-

ecommunications technologies, promote private sector growth and competitive advantage, and extend structural reform via institutions and regulation implementation. (UNCTAD, 2021a).

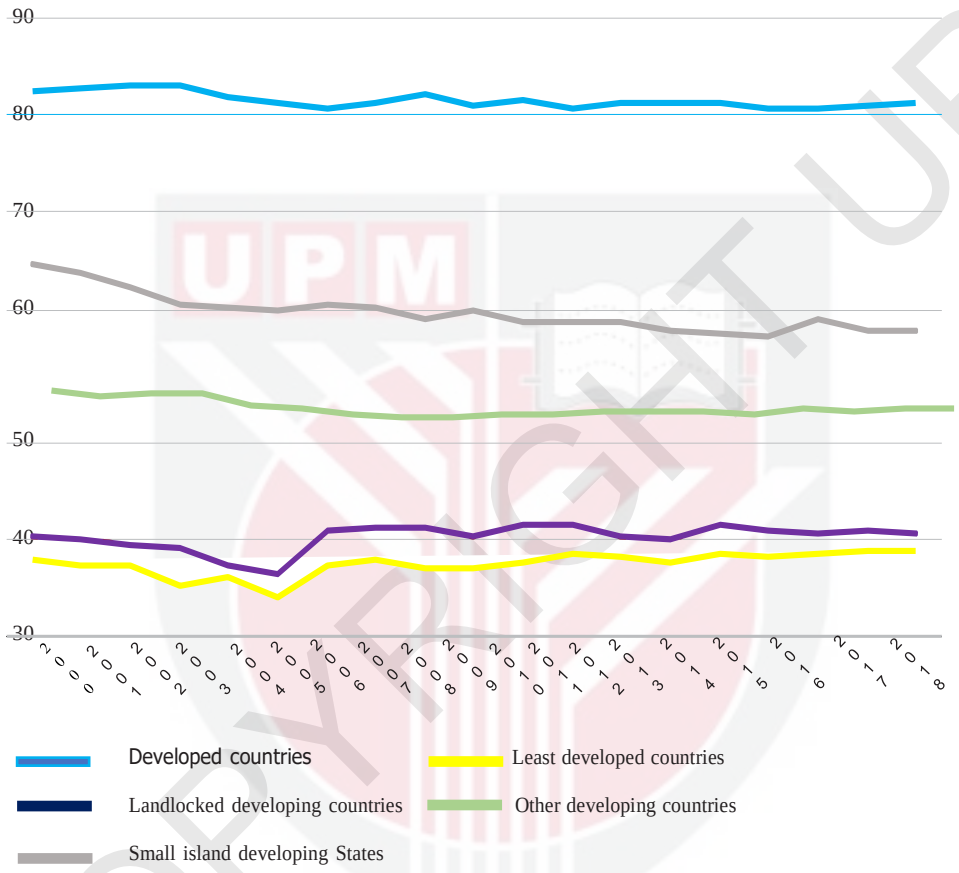

Figure 1.9 : Evaluation of Institutions

1.1.10 Aid for Trade-Growth and Poverty link

Following Alonso (2016), AfT inflows could boost economic growth and eliminate poverty in the recipient countries through its impact on trade-related outcomes. According to Gnangnon (2018f) the connection between the various categories of AfT is largely responsible for the expansion of export baskets and the decrease in trade costs in the receiving countries. For instance, AfT for economic infrastructure promotes in the development of hard and soft infrastructure to reduce trade costs (by the strengthening of manufacturing and exporting), and may hence help beneficiary nations realize their targeted export strategy over the long run. In such case, this subcategory could be export

expertise, and AfT inflows would be followed by a concentration or a broadening of exports (Gnangnon, 2019a).

Additionally, AfT for productive capacity building might improve a nation's trade by enhancing the performance of its current export goods or assist the nation in diversifying its future export goods by concentrating on specific industries (Gnangnon, 2018f). Reducing trade restrictions are the aim of AfT's trade policy and regulation category (Calì & te Velde, 2011). Therefore, it could be linked to a broadening or specialization of exports, or it could be linked to an improvement in the quality of these export industries. It would then assist the beneficiary nation's officials in creating greater trade laws that correspond with their export growth. Figure 1.9 shows the various ways that AfT influences trade performance, therefore, boosting growth and alleviating poverty in the recipient nations.

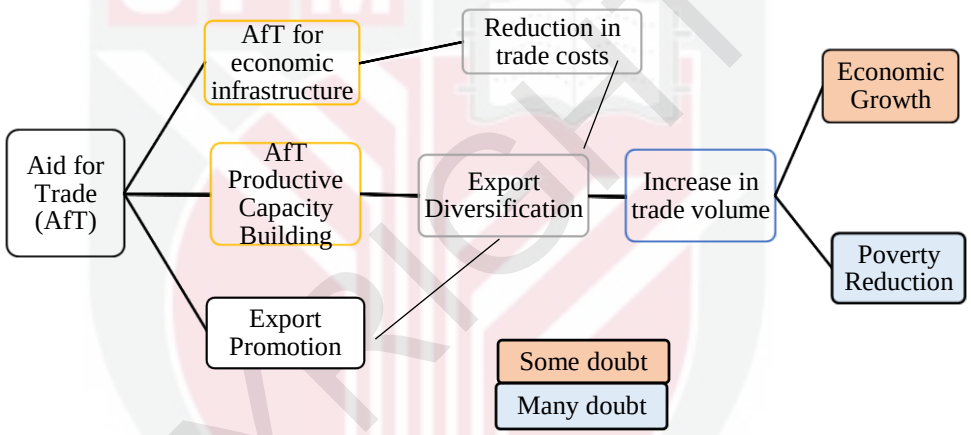

Figure 1.10 : Channels through which AfT affects growth and poverty
(Source : Alonso 2016)

As shown in figure 1.9 above, Through the development of the soft and hard infrastructure, the expansion of the productive capacity, and the promotion of exports, AfT decreases the trade costs of the recipient nations and broadens their exports. As some empirical work implies, these facilitations increase the volume of trade, which may in turn encourage economic growth (see Dollar and Kraay, 2004; Chang *et al.*, 2009; Feenstra, 2010; Keho, 2017). Instead, it might weaken the growth correlation, as other research have found (see, Ulaşan, 2015; Kim, 2011; Malefane and Odhiambo, 2019; Hye and Lau, 2015). On the other contrary, a large number of empirical studies claim that trade may result in a decline in poverty levels (for instance, Le Goff and Singh, 2014; Perera *et al.*, 2014). Or, as many other studies have shown, it might cause poverty rates to rise. (for instance, Barraud and Calfat, 2008 Naranpanawa *et al.*, 2011)

AfT is anticipated to boost trade, improving access to international markets and products for developing and least developed nations. The promotion of economic growth through foreign direct investment is yet another way that AfT can accomplish this. AfT fosters FDI in a variety of ways. An improved infrastructure makes a recipient nation more appealing to investors. Examples of such infrastructure include transportation, energy, and communication technology. It lowers the price of setting up export portals or other linkages in the global supply chain as well as selling to clients in the receiving country (Lee & Ries, 2016). AfT for productive capacity building developing may also be aided by assistance from multinational enterprise (MNE) investment. For instance, financial support for agricultural research may stimulate spending on later stages of food processing. Indeed, aid may encourage investment since it spans efforts to make nations more accessible to FDI. There could be several advantages for emerging nations if AfT does encourage investment in those nations (Lee & Ries, 2016).

1.1.11 Aid for Trade-Employment link

By contributing to the promotion of trade, including the extension of both exports along with imports of products and services in the receiver nations, AfT could assist improve larger employment rates, particularly employment shares in industries involved in international trade activities (Gnangnon, 2018a). Furthermore, AfT may affect labour shares in recipient countries, via the influence of its elements on trade. First, by assisting to build sufficient economic infrastructure, AfT will significantly minimize costs of trade, and thereby increase the efficiency of recipient countries in the foreign trade market, such a boost in performance may allow traders in these countries to broaden their export product portfolio.

Building infrastructure could develop the skills of the employees and increase employment. It is also presumed that the building of highways or the building of a massive dam would create employment in the construction industry. The construction of infrastructure projects commonly involves unskilled and unemployed workers. Thirdly, the competitiveness of recipient nations in aspects of both quantity and export prices can be further strengthened via AfT allocated to increasing the productive capacity of the beneficiary countries' products and services. Fourthly, AfT allocated to policy and regulations attempts lower costs for administration and trade obstacles. (Calì & te Velde, 2011; Busse et al., 2012) and thus the trade costs that related to global trade events (Gnangnon, 2018a). Furthermore, it can encourage AfT inflows receiver nations better enhance their trade policy and performance, particularly exports.

1.2 Problem statement

The problems of poverty, employment, and economic growth have long become a primary concern for most developing nations' governments and international development partners. poverty fell to 10% of the global population in 2015, from 36% in 1990, resulting in a planet of over a billion fewer people living in absolute poverty (Worldbank,

2018). This remarkable progress has brought the World Bank's goals of elevating absolute poverty to lower than 3% of the world population by 2030 nearer to accomplishment. On the other hand, unemployment lowers the quality of life for the bulk of the population and creates severe, occasionally dangerous, mental harm (Sadikova et al., 2017). In 2018, approximately 172 million individuals globally were unemployed, corresponding to a 5.0 % unemployment rate. The unemployed population number reached 174 million in 2020 as a consequence of the growing labour force (ILO, 2020).

Furthermore, Growth in developing countries has profited from a conflation of advantageous structural and cyclical advancements between 2001 and 2019, as many nations reached middle-income countries' per capita income levels. These advantages include price commodity boom, debt decrease, fewer military clashes in Africa, trade integration, and better corporate environments and institutional framework. Despite these encouraging reports, the battle against absolute poverty is still far from eradicated, and in certain ways is becoming more difficult. In addition, addressing the unemployment and the social challenges mentioned above, particularly for the youth is crucial, not only for the well-being of the youth but also for ensuring sustainable growth rates in the recipient countries. Moreover, the growth advantages were either one-time occurrences or are uncertain to happen again.

Indeed, countries with per capita income levels under the middle-income line are much more probably to be delicate, isolated from other developing countries, and to be strongly dependent upon agriculture, and face poorer potentials for long-term commodity demand. In an attempt to alleviate theses constraints, several policymakers in the least developed nations have relied on ODA inflows as forms of capital formation to accelerate economic growth, generate employment and alleviate poverty. As a consequence, the WTO and the OECD launched the AfT initiative in 2005. The AfT initiative can be critical in advancing the SDG agenda (United Nations, 2015). According to the 2017 monitoring and evaluation (M&E) exercise, both donors and recipients believed that the AfT initiative would contribute to the 2030 Agenda, specifically the SDG 8, which aims to "Promote sustained economic growth, full and effective employment for all", and SDG 1 that aims for no poverty. Based on the issues mentioned above, the present study aims to answer the following question:

Could the Aid for Trade inflows reduce poverty, generate employment, and boost economic growth?, and what is the role of the institutional quality and foreign direct investment inflows?.

1.3 Objectives of the Study

The current study attempts:

1) To evaluate the nexus between Aid for Trade inflows and poverty in the recipient countries.
2) To investigate whether the effect of Aid for Trade inflows on the sectoral employment shares is determined by the amounts of FDI inflows of the recipient countries.
3) To examine the impact of Aid for Trade inflows on economic growth, and whether this impact is contingent on the institutional quality in the recipient countries.

1.4 Significance of the Study

As it is demonstrated in the aid-poverty literature in chapter two, the non-monetary measure of poverty has mostly been used, however, this study applies the monetary measures of poverty including both headcount and poverty gap indexes which are more appropriate in capturing the ability of households to provide their basic needs such as food, clothing and shelter. Future researches will also benefit from this study as these proxies are more reliable to measure poverty. In terms of methodology, this study contributes immensely to knowledge because it uses both system GMM estimation and the quantile regression approaches, which in contrast with Durowah (2017) study which applied the fixed and the random effects estimating methods. Moreover, this study demonstrates the specific impact of each AfT categories alone instead of the aggregate impact.

Secondly, this study is unique comparing to the other two AfT-employment studies, namely Gnangnon (2018a) and Gnangnon, (2018d), in the sense that provides the first empirical investigation regarding the AfT- sectoral employment shares of 93 recipient countries, using the AfT disbursements in real values measure, and a latest panel data from 2009 to 2018, instead of the AfT disbursements in the percentage of GDP measure as in Gnangnon (2018a) study , and earlier period that ranges from 2002 to 2015 as in both studies. Additionally, this study uses data on the shares of employment in agricultural and industrial sectors a dependent variable, however, Gnangnon, (2018d) analysis used an index of sectoral employment diversification, and Gnangnon (2018a) used the total as well as the gender employment shares (for males and females).

Furthermore, this study also examines how AfT could affect these sectoral employment shares when it is interacted with foreign direct investment inflows. This is study is unique in the sense that it is the first study to consider the conditional role of FDI in the AfT-Sectoral employment shares nexus. Another significant difference with these two studies is that the current study additionally applies the quantile regression approach which allows discovering the diversification of AfT inflows impact across deferent countries quantiles. The findings of this study will serve as a guide to both donors and recipient

countries on what kind of AfT category affect which sector the most, therefore, focusing more on this category to boost more employment shares. The study also fills the knowledge gap concerning the influence of AfT on economic growth, since the empirical literature on this issue is also very limited. Until recently, only one study by Roy et al., (2021) has empirically explored the growth impact of the AfT for trade policy and regulations category.

Therefore, this research contributes significantly towards the expansion of the literature by investigating the effect of aggregate AfT including its three main components on economic growth in 75 recipient countries instead of 50 as in Roy et al., (2021) study. The study outcomes can also simplify the design of better distribution policies and tactics from the perspective of multilateral providers. In addition, recipient countries can formulate or repair the present policy measures related to the use of AfT more efficiently based on results. Moreover, the current study will be an answer to the critical debate on the effectiveness of the WTO and the OECD initiatives on developing and poor countries.

Supplementary, future studies in the AfT field will benefit hugely from the outcomes of this study, as it opens new fields of interest concerning the AfT effectiveness, rather than exclusively focusing on the AfT effect on trade-related outcomes (particularly exports). Additionally, the majority of earlier studies on the connection between foreign aid, poverty, and growth employed the total ODA as a proxy. However, this study specifically used real AfT disbursements. The use of AfT is justified by the fact that, whereas ODA generally has a number of objectives, some of which may not directly address growth and poverty, AfT emphasizes poverty and growth as the primary and second highest crucial elements, respectively (OECD & WTO 2013; page 146). Therefore, utilizing AfT might be more suitable than overall ODA for this study.

1.5 Organization of the chapters

This study is divided into five chapters. Chapter one displays a detailed introduction, which contains the study background of AfT inflows, poverty, sectoral employment, and economic growth in the receiver countries, in addition to the link between these variables, followed by the discussion on the problem statement, research objectives, significance of the study, and the study structure. Subsequently, the discussion on the literature relevant to the study is being provided in chapter two. This chapter demonstrates the theoretical and empirical effects related to the three examined issues. The research methodology chapter gives a glimpse of the model specification, empirical methodology, and data sources that will be applied**.** Chapter four discusses the outcomes of the empirical analysis. Finally, in chapter five, the study is concluded by summing up the findings and emphasising the policy implications. The chapter also covers the study's limitations and makes some recommendations for future studies.

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