World Trade Organization

OECD

AIDFORTRADE AT A GLANCE 2013

CONNECTING TO VALUE CHAINS

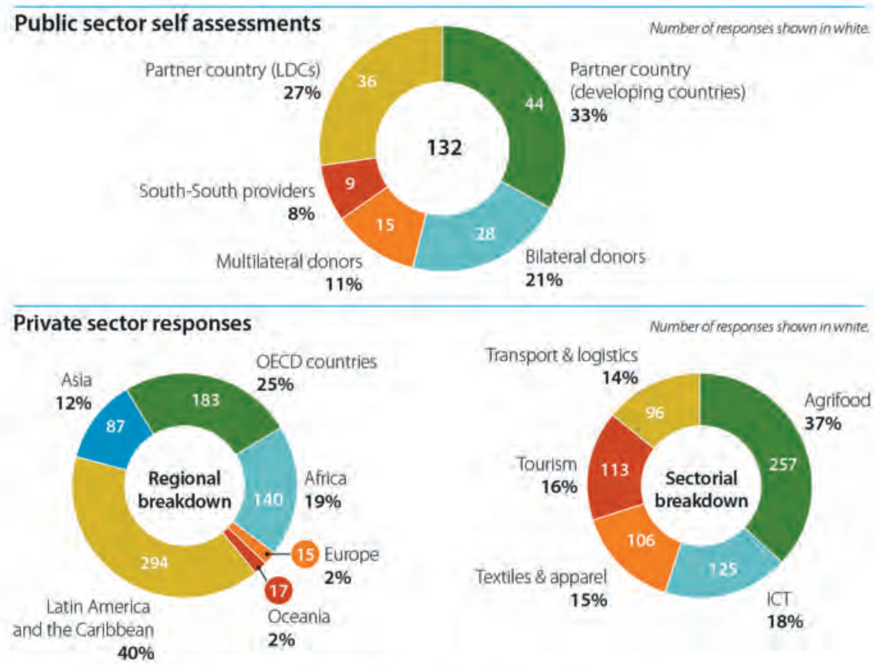
EXECUTIVE SUMMARY

The 2013 report Aid for Trade at a Glance: Connecting to Value Chains analyses the strategies, priorities, and programmes from the public and private sectors in developing and developed countries to connect developing country suppliers to value chains. The report suggests that the increasing fragmentation of production processes offers developing countries new trading opportunities, but also present risks. Value chains reinforce the rationale for keeping markets open and highlight the costs of burdensome procedures that create "thick borders".

Aid for trade plays an important role in easing the policies and trade-related binding constraints that prevent developing country firms from linking to or moving up value chains. The report emphasises that this can be done even more effectively by better engaging the private sector, improving the business environment, upgrading labour skills, creating the conditions for regional projects, targeting aid to achieve trade and development results, and using aid to mobilize productive investment.

All stakeholders remain actively engaged in the Aid-for-Trade Initiative as illustrated by the 132 self-assessments from 80 developing countries (including 36 least developed), 28 bilateral donors, 15 multilateral donors, and 9 providers of South-South co-operation. Moreover, 524 supplier firms in developing countries provided their views on the barriers they face in linking to value chains, while responses from 173 lead firms (mostly, but not exclusively in OECD countries) highlight the obstacles they encounter in integrating developing country firms in their value chain..

Figure 0.1 Stakeholder engagement in the Aid for Trade Initiative



Source: OECD/WTO Questionnaire 2013, www.aid4trade.org.

Note: Based on responses submitted from developing countries in Africa, Asia, Latin America and the Caribbean, Europe and Oceania, as well as from OECD countries (some of these categories overlap).

StatLink http://dx.doi.org/10.1787/888932853777

Aid for trade remains important…

The emergence of value chains strengthens the rationale for trade-related assistance and is reinvigorating the aid-for-trade debate. Developing countries seek value chain participation to achieve their economic growth, employment and poverty reduction objectives.

…to increase competitiveness, reduce trade costs, and connect to value chains.

Developing countries, including the least developed, are directing public investments (including ODA) to reduce the thickness of their borders, improve competitiveness and create conditions for their firms to connect to value chains. Donors are responding to these new priorities by focusing their support on private sector development and regional programmes to reduce trade costs.

The role of the private sector is increasing.

The importance of the private sector is increasingly recognised as a stakeholder in the aid-for-trade dialogue, as a partner in the delivery of aid for trade, and, in some cases, as a provider of capacity-building support. Public-private partnerships, however, remain challenging in terms of roles and expectations.

Aid-for-trade commitments reached USD 41.5 billion in 2011 up 57 percent over the 2002-05 baseline.

Although aid for building supply-side capacities remains an important priority, commitments dropped to USD 41.5 billion in 2011 due to the financial crisis that exerted downward pressure on DAC Member's aid budgets. In 2011, aid-for-trade commitments returned to 2008-09 levels and, despite the 14 percent drop, commitments still remain 57 percent above the 2002-05 baseline.

There is less support to economic infrastructure, but…

The decline in 2011 of USD 6.4 billion resulted in less support to large projects in economic infrastructure, with commitments to the transport and energy sectors falling by USD 3.5 billion and USD 3.2 billion, respectively.

…increases to building productive capacities, while…

However, commitments to building productive capacities increased to USD 18 billion in 2011 indicating the growing priority partner countries and donors attach to developing the private sector. Support for business services, agriculture and industry all rose by 10 percent.

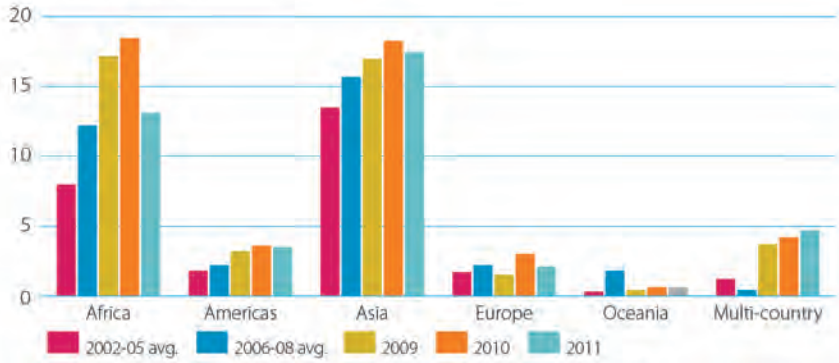
… the trade development component, and trade adjustment funding doubled.

Funding of programmes with a clear objective to promote trade doubled since 2007 and reached USD 5.4 billion, while trade-related adjustment financing more than doubled from the previous year to USD 62.8 million. Trade facilitation attained commitments of USD 380 million in 2011.

Asia is the largest recipient, and… Asia is now the largest aid-for-trade recipient with USD 17 billion.

The strong growth of aid for trade to Africa in recent years has been arrested and support declined to USD 13.1 billion. Aid for trade to emerging European economies also declined, while other regions continue to receive relatively stable, albeit lower, levels of support.

Figure 0.2 Aid for trade by region
(USD billion, 2011 constant)



Source : OECD Creditor Reporting System Database, http://stats.oecd.org/index.aspx?DataSetCode=CRS1#.

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...low income countries receive the largest share.

The tightening of ODA budgets and the resulting decrease in overall aid-for-trade commitments has touched all income groups. However, the LDCs were least affected and low income countries now receive the largest share of total aid for trade. The relatively better off developing countries rely increasingly on domestic and foreign direct investments to address their trade-related binding constraints.

G20-DAC countries risk falling short of their pledge, ...

The G20-DAC countries are USD 831 million off track to meet their pledge to maintain beyond 2011 their aid-for-trade levels that reflect their average aid for trade for the period 2006-08.

...but China and India scaled up their support.

China and India, on top of their non-concessional support, doubled their ODA-like assistance in 2011 to USD 2.4 billion and USD 730 million respectively. South-South trade-related support is becoming increasingly an important complement to aid for trade.

The outlook points towards a further modest overall decline.

The 2012 outlook is for a modest further drop in bilateral aid-for-trade commitments which makes up 60 percent of total commitments. Multilateral donors are more positive while providers of South-South co-operation indicate continued growth of their funding.

Value chains potentially offer a path towards economicdevelopment...

Since the launch of the Aid-for-Trade Initiative in 2005, value chains have become the dominant feature of the global economy. By providing access to networks, regional and global markets, capital, knowledge and technology, value chains offer a path towards economic development that is easier to follow than building fully integrated production processes.

... particularly in agri-food, tourism and textiles, but...

Suppliers in developing countries are

well-established in value chains in agri-food, tourism, and textiles and apparel, while value chains in information and communication technology, and transport and logistics offer opportunities to reduce the thickness of borders.

…barriers in infrastructure, access to finance and standards' compliance remain.

Partner countries consider inadequate infrastructure, access to trade finance, compliance with standards, lack of comparative advantage and high market entry costs as the main obstacles to their value chains integration. Donors and providers of South-South co-operation also point to the lack of a skilled labour force and the inability to attract FDI and trade restrictions.

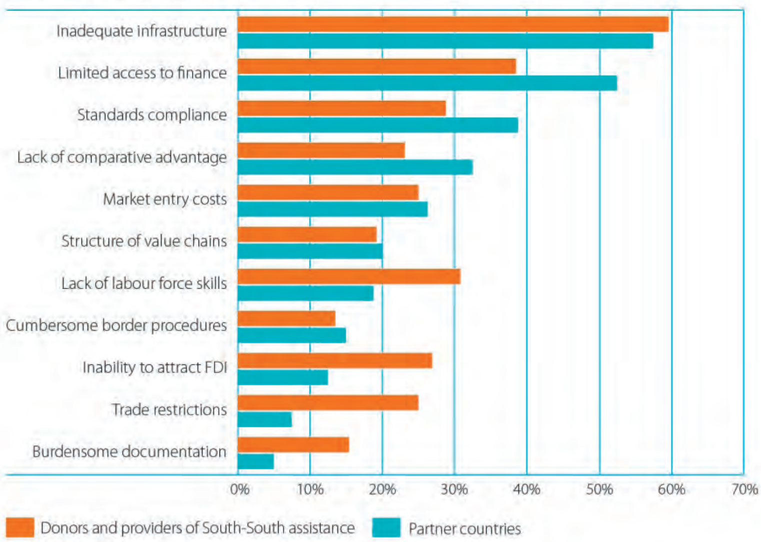
Suppliers highlight trade finance, infrastructure and regulatory uncertainty, while…

Suppliers in developing countries all rank the lack of access to trade finance as their main barriers to entering, establishing or moving up value chains. They also cite transportation and shipping costs, the business environment and certification requirements as obstacles.

…lead firms also stress custom procedures and licensing requirements.

Lead firms rank transportation costs as their main barrier. They also point to custom procedures, licensing requirements and the business environment as impediments to integrate developing country suppliers into their value chain.

Figure 0.3 Public views of the main barriers in connecting firms to value chains
(percentage of responses)



Source: OECD/WTO Questionnaire 2013, *www.aid4trade.org.*

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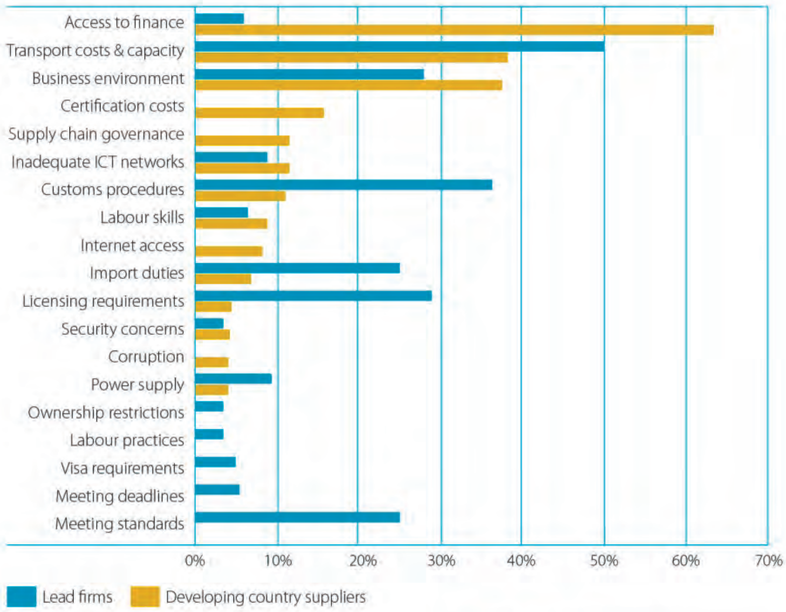
Figure 0.4 Private views of the main barriers in connecting firms to value chains
(percentage of responses)



Source: OECD/WTO Questionnaire 2013, *www.aid4trade.org.*

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Regional aid-for-trade programmes are potentially more beneficial and...

Regional aid-for-trade programmes are, in general, more cost-efficient than single country programmes in supporting efforts to reduce border thickness and infrastructure deficits. Benefits which are especially important when donor budgets are stretched.

…are attracting more funds to address trade facilitation and infrastructure barriers.

The tripling of regional aid for trade to USD 7.7 billion in 2011 testifies to the rising awareness among partners and donors about the potential impact of regional aid-for-trade programmes in achieving trade and development goals.

Aid for trade is lowering trade costs,…

There is now abundant evidence that aid for trade in combination with complementary policies is helping to lower trade costs – in the form of additional infrastructure, better institutions such as customs and standards authorities, as well as more trade friendly policies and regulations, or in regulatory procedures that increase competition and reduce prices.

…increasing trade performance, as well as…

Econometric analysis suggests that bilateral aid for trade is broadly correlated with increases in trade performance. This report calculates that 1 USD in aid for trade is associated with an increase of nearly 8 USD in additional exports from all developing countries, 9 USD for all low and lower-middle income countries and 20 USD for International Development Association (IDA) countries.

…trade in parts and components.

Econometric analysis has also found that aid for trade is even more positively and significantly associated with growth in trade of parts and components.

There is no need for major refocusing of aid for trade, but…

The progressive proliferation of value chains is changing global trade flows and widening trading opportunities for developing countries' suppliers. Aid for trade is already addressing the right set of issues to further support this process. No major refocusing of the Aid-for-Trade Initiative seems required.

…import efficiency requires more attention.

At the same time, improving import efficiency appears to be one area that requires additional attention. Too frequently aid-for-trade programmes fail to exhibit sufficient concerns about this dimension of competitiveness, which is nevertheless vital for connecting developing country suppliers to value chains.

Aid effectiveness principles could better applied, and…

All stakeholders emphasize that aid needs to be managed better to deliver tangible trade and development results. Governments that are working with donors to design aid-for-trade programmes with clear targets and performance indicators for each phase of the results chain are likely to have the greatest pay-off.

… aid-for-trade programmes should take account of the broader policy environment.

Aid-for-trade programmes also need to take into account the broader policy environment, particularly trade policy but also complementary policies.

What seems most needed now is a renewed commitment by all stakeholders to continue supporting developing countries in building the supply-side capacities and infrastructure they need to make trade an engine of growth and poverty reduction. The 4th Global Review in July 2013 and the 9th WTO Ministerial Conference in December 2013 provide important opportunities for Members to discuss how to ensure the continued relevance of the Aid-for-Trade Initiative in a changing environment for trade and development.