



AID FOR TRADE WORKSHOP

Maximising the economic diversification impact of Aid for Trade

Monday 10 October 2022

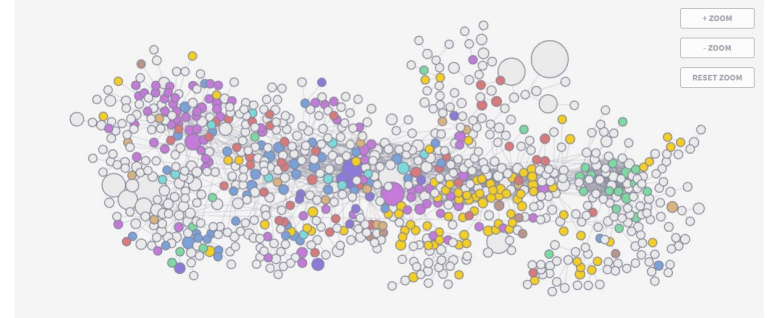


Why does economic diversification matter?

- A paradox in light of trade theories and comparative advantage?
- Diversification is key to economic growth and sustainable development
- Lessons from recent crises – economic diversification and resilience
 - Reduce dependence on one or more product or service
 - Reduce dependence on one or more supplier or buyer
- Opportunities with digitalization, green transition

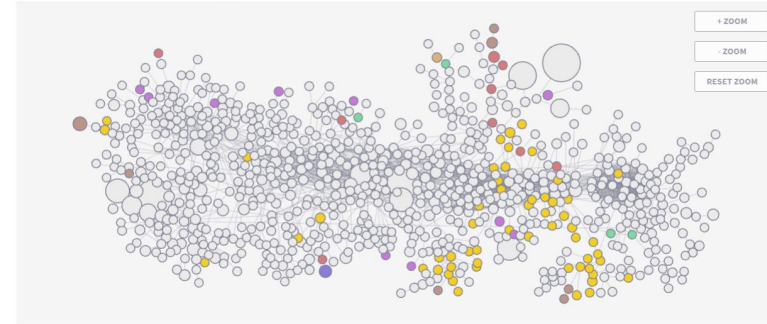
What did France export in 2020?

Total/Shown: \$732B ⓘ



What did Chile export in 2020?

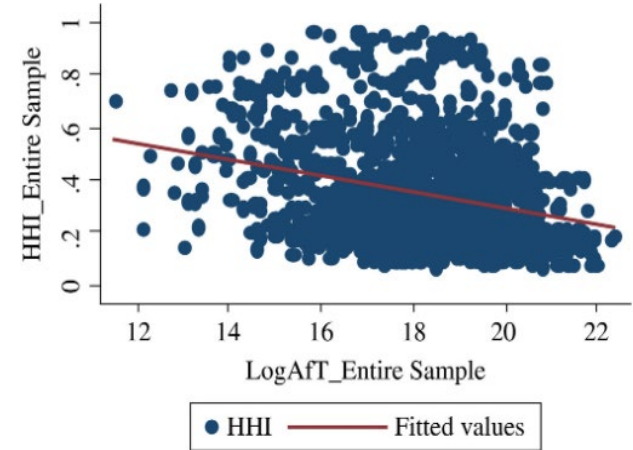
Total/Shown: \$78.2B ⓘ





Aid for Trade helps promote economic diversification

- Central theme of 2019 Global Review, addressed in 2022 Aid for Trade at a Glance
- Empirical evidence of AFT impact on both import and export diversification
 - Gnanon (2019) – positive impact of AFT flows on export product diversification of recipient countries
 - Ly-My et al (2020) – contribution of AFT to the diversification of both import commodities and import partners
 - Nathoo et al (2021) – AFT flows exert a strong positive effect on inward FDI stock in countries that experience a high level of export product concentration



Gnanon (2019). Aid for trade and export diversification in recipient-countries. <https://doi.org/10.1111/twec.12711>



How does that work? (I) A4T channels of intervention

1. Create a trade and investment enabling environment

- Infrastructure (e.g. transports and logistics, telecoms) and basic services (e.g. access to finance)
- Institutions (e.g. customs reform, administrative red tape, fight against corruption)
- Policies (e.g. sustainability standards and reporting) and international treaties (e.g. RTAs)

2. Bolster productive capacities and domestic value addition

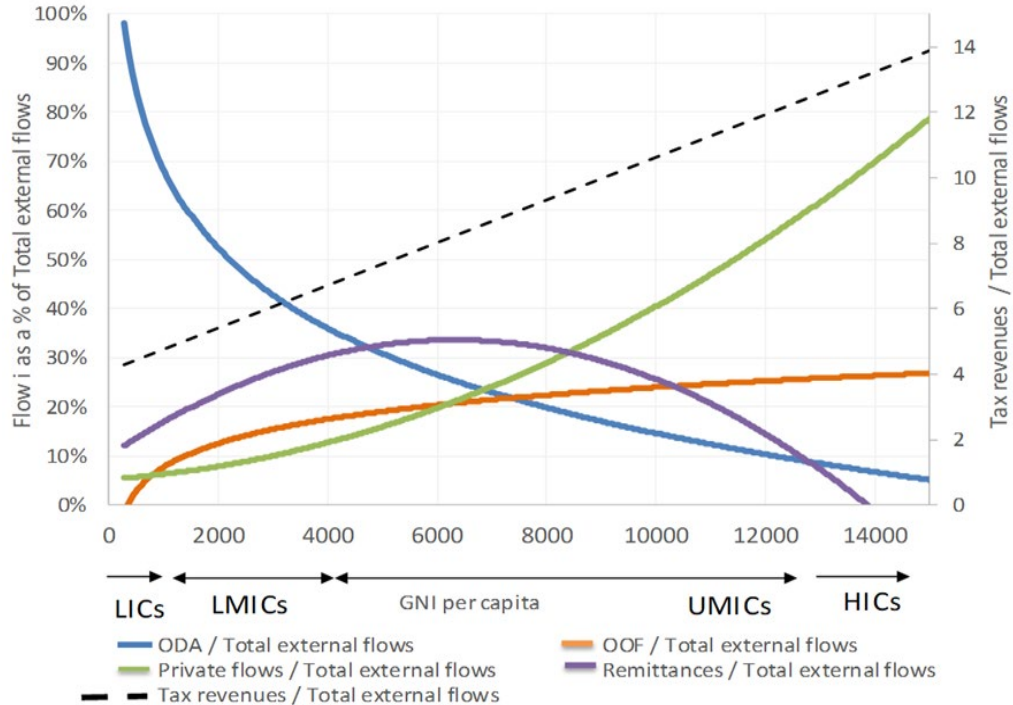
- Skills, knowledge and innovation (e.g. technology transfers)
- SMEs, women-led businesses, smallholder farmers (e.g. upgrading standards, marketing advice)
- Forward and backward domestic linkages (e.g. local sourcing)

3. Connect to international markets

- Investment and trade/export promotion, market analysis (e.g. EPAs, IPAs)
- Competitiveness and connection to GVCs (e.g. trade maps, product space)
- Trade adjustment (e.g. resilience) and new opportunities (e.g. green transition, digitalization)



How does that work? (II) Financial instruments



Instruments and financing mix change as countries become richer:

- Need more grants and concessional loans at early stages of development
- Need to better prepare transition and substitution of ODA by other sources of financing at later stages (e.g. DRM)

Private finance mobilization:

- Blended finance, de-risking instruments (e.g. guarantees), partnerships
- Promotion of FDI and private equity
- Leverage aid with private investment
- Ensure quality of financing (e.g. FDI)

During 2012-20, 86.6% of private sector resources mobilised were in trade-related sectors (new TOSSD data)



Conclusion

- Aid for trade is essential to economic and trade diversification
- Scope of aid for trade has evolved with the reality of trade and objectives assigned to it (see Global Review and A4T at a Glance 2022)
 - Trade and investment intertwined, PSD v. A4T stricto sensu
 - Focus on trade value addition and investment qualities, contribution to SDGs (not enough to trade more, need to have greater sustainable development impact)
 - New financing instruments and increasing importance of private finance mobilization, A4T partnerships
 - Between risk of too narrow focus not adapted to SDG era, and too broad with diluted trade dimension and loss of focus
- Need for revision of A4T definition and ways of measuring it, including to better measure impact – economic diversification and resilience being one of those measures (WP-STAT, TOSSD)