

# Aid for trade in services: definition, magnitude and effects

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# Motivation

- Launch of the AfT initiative at the 2005 Hong Kong Ministerial recognized the need for development assistance to complement efforts to lower trade barriers
- Consistent with this recognition, total AfT disbursements increased from an average of USD 21 bln in 2006-2008 to USD 40 bln in 2015 and USD 58 bln in 2017 (OECD and WTO, 2017)
- Existing literature assessing the effects of AfT has focused on the effects on merchandise trade (e.g., Cali and te Velde, 2011; Nowak-Lehmann et al. 2013; Hühne et al. 2014) and investment (e.g., Selaya and Sunesen, 2012; Donabauer et al. 2016; Lee and Ries, 2016)
- More recently, attention has broadened to examining the effects of AfT on trade in services (Ferro et al. 2014; Martínez-Zarzoso et al. 2017; Hoekman and Shingal, 2020a,b)

## Services trade is important...

- Many low-income countries, especially small economies, derive a significant share of their foreign exchange revenues from services exports
- Services trade and FDI can foster productivity growth by inducing greater competition in domestic markets and providing firms access to higher-quality, more varied, and cheaper services inputs (Balchin et al. 2016; Hoekman and Shepherd, 2017)

## ...and so are services in general

- Performance of service sectors matters for economic growth and development by virtue of their role as inputs into production in all sectors of economic activity
- In most countries, services account for 55–75% or more of total output and employment
- Realization of many SDGs depends on improving the quality of – and access to – a range of services such as transport, communications, finance, health and education (Fiorini and Hoekman, 2018)

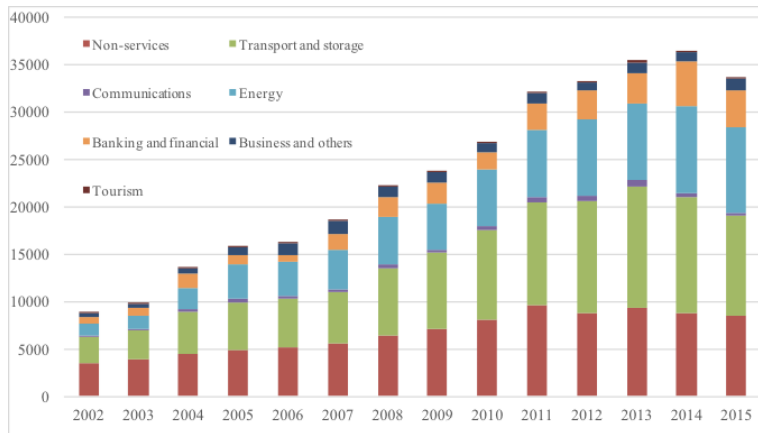
# What is AfT?

- AfT is one component of total ODA and comprises the following categories according to the OECD:
  - technical assistance for trade policy and regulations (e.g. helping countries to develop trade strategies, negotiate trade agreements, and implement their outcomes);
  - trade-related infrastructure (e.g. building roads, ports, and telecommunications networks to connect domestic markets to the global economy);
  - productive capacity building, including trade development (e.g. supporting the private sector to exploit their comparative advantages and diversify their exports);
  - trade-related adjustment (e.g. helping developing countries with the costs associated with trade liberalisation, such as tariff reductions, preference erosion, or declining terms of trade); and
  - other trade-related needs, if identified as trade-related development priorities in partner countries' national development strategies

## AfT allocated to “services”

- The OECD Creditor Reporting System (CRS) database does not provide statistics that exactly match these AfT categories
- Only parts of ODA data are reported as aid going to building economic infrastructure (EI) and to the creation of productive capacity (PCB)
- EI includes three broad “services” sectors: energy; transport & storage; and information and telecommunications networks
- PCB includes the following three services: banking and financial services; business and other services; and tourism
- Not all ODA data reported under these headings is trade-related
- *But data reported under these six sectors are the closest approximation of AfT allocated to services*

# Sectoral distribution of global AfT (\$mIn)



Source: Hoekman and Shingal (2020a)

# Geographical distribution of AfT in services by sector (USD mln)

<b>AfT in services (avg. 2002-2015, \$mn)</b>	<b>Africa</b>	<b>America</b>	<b>Asia</b>	<b>Europe</b>	<b>Pacific</b>	<b>Global</b>
Transport & Storage	2942.6	474.8	3690.5	611.5	154.6	7771.3
Communications	158.9	46.6	185.0	60.1	9.1	450.6
Energy	1826.0	424.8	2780.1	393.4	36.5	5394.1
Banking & Financial	791.1	206.0	858.6	508.1	6.4	2296.1
Business & Other	376.0	89.7	498.0	144.1	12.6	1094.3
Tourism	45.5	21.5	28.2	6.6	4.3	105.0
<b>SERVICES</b>	<b>6140.2</b>	<b>1263.3</b>	<b>7718.3</b>	<b>1723.7</b>	<b>223.5</b>	<b>17111.3</b>

Source: Hoekman and Shingal (2020a)

Note: For Europe, the average is over 2002-2013; no AfT was allocated to European countries in 2014-2015



## Summary of findings (I)

- AfT targeting services activities benefits most those manufacturing sectors that use services relatively more intensively (Ferro et al. 2014)
- AfT promotes mainly goods exports for the lower quantiles of the conditional export distribution (Martínez-Zarzoso et al. 2017)
- AfT, in particular that allocated to services activities, especially economic infrastructure, has a positive effect on donors' merchandise imports from recipient countries
  - A doubling of donor-to-recipient AfT is associated with a 3.8 percent increase in the donor's goods imports from the recipient on average (Hoekman and Shingal, 2020a)

## Summary of findings (II)

- Hoekman and Shingal (2020b) also examine whether the trade effects of AfT and its sub-types differ for small versus large trading economies
- They find that the effects of AfT allocated to services, including economic infrastructure and productive capacity building, as well as AfT allocated to trade policies and regulation are both larger and more precisely estimated for small-value services exporting countries, suggesting that AfT meets its intended objective of supporting such countries
- AfT allocated to services activities have more limited and smaller effects on merchandise trade relative to those observed for services trade

# Inferences

- Limited evidence for complementarities between goods and services
- Findings likely influenced by the limited availability of disaggregated services trade statistics for many developing countries - need for investing in improving services trade statistics in LICs
- Hints of statistically significant associations between some types of AfT and services trade - need for devoting greater attention to AfT design to make this a more effective mechanism to support services trade

# Covid-19 and services trade

- Services trade will be more severely affected and will also take longer to recover in this crisis
- Nearly 75 per cent of global services trade is transacted via modes that require some form of physical proximity between buyers and sellers; the latter is the first casualty of social distancing and related practices in the wake of Covid-19 (Shingal, 2020)
- The UN has already called for a USD 2.5 trillion stimulus package for small developing and less-developed countries that are hugely reliant on tourism and related hospitality services as these are likely to be the most severely affected
- Re-allocating global aid in favour of such countries and not imposing prohibitive barriers to trade in services on health grounds will together determine how quickly economies recover in the aftermath of this pandemic
- Encouragingly, findings from Hoekman and Shingal (2020b) suggest that aid allocated to small-value exporting countries is effective in enhancing their services exports

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Thank you for your attention

Comments welcome

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