

WHAT IS AID FOR TRADE?

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Aid for Trade (AfT) has been heralded as the cornerstone of the Australian government's new aid program. In a recent speech, Australia's Minister for Foreign Affairs and Trade, Julie Bishop, emphasised the need for 'economic diplomacy' to complement Australia's aid and trade programs. Citing the importance of economic growth in poverty elimination, AfT was outlined as an important part of the government's new aim platform.¹ In theory, AfT promotes self-reliance of the receiving country by strengthening the private sector, building infrastructure and streamlining the flow of human resources and goods across borders.² This paper provides a brief introduction to AfT.

AfT has emerged in a time where countries are placing emphasis on a value-for-money policy.³ Aid has evolved from a simple vertical donor-recipient relationship to more complex horizontal relationships, as traditional recipient countries are moving to middle income country status.⁴ Some commentators view the current government shifting its aid focus away from traditional social domains like education, health, and the environment, to supporting the private sector as part of Australia's interest in promoting national interest through sustainable growth.⁵ However, others argue AfT is a more effective means of achieving aid objectives and has a multiplier effect in opening new markets and broadening opportunities for the recipient country.⁶

Recent significant changes to Australia's aid policy include the integration of AusAid into DFAT, shifting aid funding from Africa to Asia (particularly the Indo-Pacific region), and introducing performance benchmarks to ensure recipient governments take responsibility for aid funding.⁷ This is particularly pertinent as it reflects Australia's changing diplomatic and trade context. For instance, while past funding to Africa reflected Australia's pursuit of a seat on the UN Security Council, the current funding to Asia signals an intent to develop stronger economic ties with the region.⁸ The Australian Government's emphasis on the AfT helps develop a sustainable feedback loop to capitalise on high returns from increased trade to increase expenditure to aid funding.

AfT promotes both inter- and intra-country trade networks. Increasing aid in the form of infrastructure and private development encourages intra-country trade networks within the recipient country. High economic activity within the recipient country increases capacity for inter-trade flows. This can benefit donor countries who, having established strong diplomatic ties through their trade partnership, have the first-mover advantage in entering emerging markets.⁹ In an era of globalization, opening trade flows are necessary for development through increasing employment opportunities that help address reducing poverty.

The Overseas Development Institute reports AfT works best when (1) it is targeted at reducing trading costs, (2) addresses limits to growth, (3) is effectively coordinated between donors and recipients, (4) shares the benefits regionally and (5) has adequate monitoring and evaluation of programs.¹⁰ Australia is moving in this direction by promoting coordination of companies interested in transferring business knowledge to recipient countries by training and job support through the newly established Australian Trade and Development Business Network. Australia also has increased requirements on individual monitoring for accountability purposes on recipient countries. However, a number of authors have highlighted that making AfT work faces significant barriers. These barriers will be the subject of the next *Ideas in Brief* contribution.

¹ The Minister for Foreign Affairs 2014, 'Australia's economic diplomacy: our prosperity, global prosperity'.

² Department of Foreign Affairs and Trade 2014, 'Australia's new development policy and performance framework: a summary'.

³ OECD/WTO 2013, 'Aid for Trade at a Glance 2013: Connecting to Value Chains' http://dx.doi.org/10.1787/aid_glance-2013-en.

⁴ Phillips, K 2014, 'Game of Giving: Australia's history of foreign aid', 24 March, ABC, viewed online: <http://www.abc.net.au/radionational/5340938>.

⁵ Davies, R 2014, 'Australia's aid program: a post-surgical stocktake', *The Conversation*, 5 February, viewed online: <https://theconversation.com/australias-foreign-aid-program-a-post-surgical-stocktake-22227>; Ramos-Horta, J 2014, 'Aid-for-Trade program not what the doctor ordered', *Sydney Morning Herald*, 13 May, viewed online: <http://www.smh.com.au/comment/aidfortrade-program-not-what-the-doctor-ordered-20140513-zrb2t.html>.

⁶ Redden, J 2014, 'Binding Aid to Trade is a Winner', *The Australian*, 7 February, viewed online: <http://www.theaustralian.com.au/opinion/binding-aid-to-trade-is-a-winner/story-e6frg6zo-1226819980707>.

⁷ Above n 2.

⁸ Australian Government 2012, 'Australia in the Asian Century' White Paper; McGeough, P & Flitton, D 2012, 'Iran, Israel key to Australia's UN win', *Sydney Morning Herald*, 19 October, viewed online: <http://www.smh.com.au/federal-politics/political-news/iran-israel-key-to-australias-un-win-20121019-27uny.html>; Davison, R 2012, 'Australia's Security Council bid: Much ado about nothing', *The Conversation*, 31 May, viewed online: <http://theconversation.com/australias-security-council-bid-much-ado-about-nothing-7380>.

⁹ Above n 3.

¹⁰ Basnett et al. 2012, 'Increasing the effectiveness of Aid for Trade: the circumstances under which it works best', *Overseas Development Institute*, Working Paper 353.