Aid for Trade and Global Value Chains: Evidence of Donor Heterogeneity

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Abstract

Aid effectiveness appears to depend systematically on which donor provides it, a pattern we and others have documented for bilateral trade and foreign direct investment. This study asks whether the same donor-specific pattern extends to a further dimension of bilateral trade: recipients' integration into global value chains (GVCs). Using a donor–recipient–year structural gravity framework covering 46 donors and 130 recipients over 2002–2019, we estimate the relationship between AfT and two measures of bilateral GVC participation, backward and forward linkage, allowing it to vary by donor group. We find that Japan robustly shows a significant association with both measures of bilateral GVC participation, unlike any other donor group, a pattern that holds up across an expanded sample and a range of robustness checks. The result extends earlier findings on Japanese AfT's unique real economic effects to a third margin of bilateral integration.

Keywords: Aid for Trade, Global Value Chains, Donor Heterogeneity, Japan, structural gravity equation

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