

# **The impact of Japanese *Aid for Trade* on *Global Value Chain* participation in East Asia**

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Building on the momentum of the surging attention in recent years within the trade and donor communities surrounding Aid for Trade (AfT) effectiveness on the one hand, and the emergence on a wider scale of global value chains (GVCs) in our increasingly globalised world on the other hand, this paper brings together two crucial and not entirely dissimilar strands of research in an attempt to find out if a case of causality can be established specifically for Japan and East Asia. As a formal category of Official Development Assistance (ODA), AfT provided by donor countries is aimed at helping developing countries build the trade capacity they need to benefit from trade opening. In theory, if AfT indeed stimulates trade between the donor and recipient country, or trade between the recipient country and the rest of the world, then it is likely that through trade in intermediate goods and services, the recipient country also participates in global value chains. This is because as an indicator of participation in value chains, intermediate trade (also known as trade in parts and components) has come to feature more prominently in modern cross-border trading relations between firms, most notably – and measurably so – for manufacturing firms in East Asia. This paper is thus an attempt at finding out if AfT from Japan, a major donor country, has led to an increase in trade and GVC participation in East Asia. If an economic correlation can be established between Japanese aid and improved trade networks with East Asian countries over time, one may claim that Japanese AfT has contributed to the de facto economic integration of East Asia.

To this end, both quantitative and qualitative research methodologies will be employed through a three-pronged approach: Firstly, historical data on aid and trade flows will be analysed through multi-country panel regressions using the gravity model. The results suggest that Japanese AfT flows from 2002 to 2013 do not lead to a perceptible increase in bilateral trade, parts and components trade, or FDI inflow/outflow. In some cases, aid actually led to a worsening of bilateral trade. Secondly, this paper will review the donor-perspective of AfT through published reports on Japanese AfT patterns and effectiveness in East Asia. Thirdly, project-level evaluation of a successful Japanese AfT project in East Asia, the Eastern Seaboard Development Programme, will be discussed to give shape and form to otherwise elusively theoretical notions of AfT and GVCs. In sum, while the empirical results of this paper find little evidence to suggest that Japanese aid flows spur GVC participation in East Asia, through a review of the literature and in consideration of both the quantitative and qualitative evidence, this study nevertheless highlights the need to define GVC participation as a goal of the international aid for trade agenda.