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Aid for Trade and the Middle-Income Trap

Thesis book of the PhD Dissertation

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1. Background to the study

A recent World Bank report indicates that, most of the world's poor are now located in middle-income countries (World Bank, 2018). The Report further notes that, higher poverty rates are found at two higher income thresholds – \$3.20 per day and \$5.50 per day – which are typical of standards in lower- and upper-middle-income countries. The World Bank classifies countries into 4 income groups namely the high (HI), upper-middle (UMI), lower-middle (LMI), and low (LI) income countries based on their annual gross national income (GNI) per capita. Based on the World Bank's classification system, the high-income countries are considered as the advanced or “developed countries” whereas the other groups of countries are referred to as the emerging or “developing countries”.

Evidence from empirical studies suggest that, when countries enter the middle-income bracket – which current ranges from 1,036 to \$12,535 GNI per capita (World Bank, 2021) – those countries face peculiar economic developmental challenges which if not addressed can result in perpetual economic growth slowdowns and stagnation that prevents them from reaching high income status (Aiyar, et al., 2013; Eichengreen et al., 2012, 2013; Glawe–Wagner, 2016). The difficulties faced by developing countries in their quest to advance to high-income status has been well document by several authors including (Chang, 2002). Similarly, it has been acknowledged in some recent economics and development literature that only 13 out of 101 middle-income countries in 1960 were able to advance to high-income status by the year 2008 (Glawe – Wagner 2016; World Bank, 2012) escaping what has been described in some economics literature and development circles as the so-called middle-income-trap (MIT). In this study, the concept of *‘avoiding, overcoming or escaping the MIT’* is used to describe the extent to which countries are able to advance from the middle-income bracket to high-income group.

The MIT is recognized as a global development challenge that affects countries in all regions of the world including Africa, the Americas, Asia, and Europe. Due to the adverse welfare consequences such as income inequality, low human capital and high unemployment in the affected countries, policy makers and international development organisations such as the IMF, World Bank, World Economic Forum, and the United Nations have also been creating awareness about the need for countries to avoid and escape the MIT (Foxley, 2016; Glawe – Wagner, 2016, World Bank, 2012; WEF, 2016; UNCTAD, 2021). Thus, the need

for countries to escape the MIT is consistent with the Sustainable Development Goals (SDGs) which among other objectives seeks to end poverty in all its forms, promote sustainable economic growth, and end all forms inequality both within and among nations (UN, 2015; UN, 2017). Furthermore, addressing the MIT and developmental challenges such as poverty in developing countries is of concern to the developed countries due to perceived negative spill over effects on their economies (Szent-Iványi, 2019).

Within the academia, several researchers including Aiyar et al., (2013); Eichengreen et al., (2012, 2013); Gill – Kharas (2015); Glawe – Wagner (2016, 2020); Han – Wei (2016); Wang et al. (2018) have conducted various several studies on why very few countries are able to escape the MIT and what factors can help countries to overcome the MIT. There are also divergent views in literature as to the definition, causes, and how countries can escape it (Glawe – Wagner, 2016). Some of the factors attributed to the MIT in literature include unfavourable demographics, bad governance, weak institutions, poor infrastructure, low human capital and technological development as well as the trade structures, of economies (Aiyar, et al., 2013; Glawe – Wagner, 2016; Foxley 2016; World Bank, 2012).

Although different perspectives have been proposed regarding how countries can escape the MIT, there is consensus that escaping the MIT would require some level of sustained economic growth (Acheampong – Udvari, 2020) although the exact level of growth and specific drivers of this growth has remained inconclusive and may vary from country to country (UNCTAD, 2021). Meanwhile, it has been established in development literature, that economic growth is determined by several domestic factors including the quality of human capital, structure of economy, and level of technology as well is international factors such as foreign aid and international trade (Todaro – Smith, 2015). In addition to promoting economic growth, some authors including Kanchoochar (2015), Reyes et al. (2007), Zhou et al., (2018), and Acheampong (2020) have also noted that international trade can help countries to escape the MIT whiles Acheampong and Udvari (2020) have also found that foreign aid has the potential to help upper-middle income countries to escape the MIT. In spite of these findings, one area that has received little attention from researchers and development practitioners is the potential role of aid-for-trade (Aft) in helping countries to overcome the MIT although the Initiative was intended to promote economic growth in developing countries.

Both the concept of MIT and the Aid for Trade Initiative (AfTI) appeared in economics and development literature around the same time. The term ‘middle-income trap’ appeared in literature a year after the commencement of the AfTI in a World Bank report authored by Gill – Kharas (2007) whereas the AfT Initiative was officially launched in December 2005. The AfT policy was developed in recognition of the potential of international trade as an engine of economic growth and poverty reduction coupled with evidence that participation in international trade has been unequal over the years with developing countries being more disadvantaged (OECD – WTO, 2019). The OECD and WTO had also discovered that developing countries were confronted with a range of supply-side and trade-related infrastructure obstacles that impaired their ability to effectively engage in international trade. The objective of the AfT policy was therefore to allocate official development assistance (ODA) specifically targeted at 3 broad areas that facilitate export expansion and diversification in developing countries with the view to boosting the contribution of exports to economic growth with the expectation that this growth would translate into sustained poverty reduction in the long-term (OECD – WTO, 2011, 2017 2019). AfT has been subsequently prioritized in the SDGs as a tool for poverty reduction and socioeconomic development in developing countries. Thus, the SDG target 8.a has the aim to “Increase Aid for Trade support for developing countries” (UN 2017, p. 13). Over the years, foreign aid and trade preferences have been among the tools used by developed countries to contribute to poverty reduction in developing countries (Szent-Iványi, 2019).

In spite of its noble objectives, several authors have criticized the AfT Initiative. For instance, Hühne et al. (2014) have argued that AfT is characterized by conditionality, which overtly or covertly favours the donors enabling them to export or impose their cultural, social, political and economic, and commercial values and ideals on recipient countries at the expense of the needs and desires recipient countries. Similarly, Flemming –Tilstam 2016; Gnanon, 2016 have also criticized AfT on the grounds that donor countries would benefit more from the Initiative. Meschi – Vivarelli (2009) as well as Winters – Martuscelli (2014) have also criticised the AfT policy on the grounds that trade liberalisation has neither been effective in reducing poverty nor promoting inclusive development. Furthermore, Chang (2002) in his book ‘*Kicking Away the Ladder, Development Strategy from a Historical Perspective*’ points out that although many developed countries and international development organisations have been putting pressure on developing countries to adopt

policies such as liberalization of international trade and investment, privatization and deregulation, the historical fact is that the developed countries did not use most of the policies that they have been recommending to developing countries.

Notwithstanding the criticisms of the AfT, several empirical studies have investigated the impacts of AfT on various dimensions of economic development and have found positive impacts on the following: attracting FDI, multiple measures of export performance, poverty reduction, and total employment (OECD – WTO, 2019; Udvari 2014, 2016, 2017). What is still missing in AfT literature is studies that have investigated the impact of AfT on economic growth in recipient countries. After 10 years since the launch of the AfT Initiative, Lammersen – Roberts (2015) pointed out that the Initiative has raised awareness among developing countries and donor agencies about the positive role that trade can play in promoting economic growth and development. However, existing studies are yet to investigate both the short and long term as well as the direct and indirect impacts of AfT on economic growth in recipient countries. Furthermore, studies on AfT have also not concentrated solely on middle-income countries. Even among countries within the middle-income bracket, existing studies are yet to investigate whether the impact of AfT is symmetrical or asymmetrical for the UMI and LMI countries respectively. Since, economic growth is a pre-requisite for escaping the MIT, **the main hypothesis of this study is that AfT has the potential to help countries to escape the MIT.**

2. Aims, hypotheses and research questions

This study seeks to fill the theoretical and empirical gaps in the existing MIT, aid effectiveness, and international trade literature by answering the following research question: *What is the potential of AfT in helping countries to escape the middle-income-trap?* To answer this question, the study evaluates the effectiveness of the AfT policy Initiative in achieving its stated objective of promoting economic growth through export expansion in developing countries by focusing on those middle-income countries that have been beneficiaries of AfT during the first 13 years of the Initiative from 2006 to 2018. By focusing on these countries and time period, the study could ascertain the potential role of the AfT in helping these countries to escape the MIT by testing the following 4 hypotheses:

H_1 : AfT has had a statistically significant positive impact on the trade performance of middle-income countries.

H_2 : AfT has a statistically significant positive impact on economic growth in middle-income countries through improved export performance.

H_3 : AfT has a statistically significant positive impact on economic growth in middle-income countries through improved supply-side logistics and infrastructure.

H_4 : AfT can help middle-income countries to escape the MIT through significant positive impacts on their economic growth.

In order to test the above hypotheses, the study utilises various quantitative research methods. In addition to using quantitative methods to test the potential of AfT in helping countries to escape the MIT, the study utilised qualitative methods to answer the following research question: *What factors influenced the effectiveness of AfT in achieving its objective of improving trade performance and economic growth?*

3. Significance and novelty of the study

Bacchetta et al. (2005) have pointed out that quantitative and detailed trade policy information and analysis are more necessary than ever before as the contentions surrounding trade opening has led to questions as to whether the gains from trade exceed the costs of trade. The AfT policy Initiative is based on the theoretical premise that both foreign aid and international trade can promote economic growth which has been identified in literature as a prerequisite for escaping the MIT. Yet the veracity of this objective is yet to be empirically proven. In terms of academic relevance, both the AfT and MIT are relatively new concepts that have been in existence for just about a decade and a half. The MIT as a concept is still evolving. The outcomes of this study will therefore contribute to the evolution of the empirical and theoretical literature on the MIT as well as the impacts of the AfT. A unique contribution of this study to existing literature is that it adds a new dimension to the MIT

literature by exploring the potential role of AfT. This study builds on the strand of MIT literature that posit that international trade can help countries to escape the MIT. It also builds on a recent study by Acheampong and Udvari (2020) who found that foreign aid has the potential to help some countries particularly those in the upper middle-income bracket to escape the MIT. Whereas studies have looked at the impact of AfT on trade costs, trade performance, FDI, employment, and poverty reduction (Cado – Melo, 2014; Gnanon, 2018; OECD – WTO, 2019), the existing studies have neither investigated the impact of AfT on economic growth nor concentrated solely on middle-income countries. Another novelty of this study is that, even within the middle-income bracket, the existing studies on AfT have not compared the impacts between the UMI and LMI countries respectively. Additionally, whereas existing studies on AfT have been predominantly quantitative in nature, this study adds a qualitative dimension to understand how the AfT participants and country specific factors influence the effectiveness of AfT and economic growth in middle-income countries? Additionally, this study applies various statistical techniques and disaggregates findings at various levels in order to get a comprehensive evaluation of the multiple dimensions of the impacts of the AfT in middle-income countries.

3. Structure of the study

The study is organised into the following 7 chapters:

- Chapter 1: Introduction
- Chapter 2: The concept and theoretical underpinnings of the middle-income trap
- Chapter 3: Concept and theoretical underpinnings of Aid for Trade
- Chapter 4: Aid for Trade and the Middle-Income Trap Nexus
- Chapter 5: Methodology
- Chapter 6 Findings and discussions
- Chapter 7: Summary, conclusions, and recommendations

4. Methodology of the research and its sources

This section provides details regarding how the main research question and hypotheses of this study were investigated. The section begins by discussing the research design, target population, and the sample selected for the study. This is followed by a

description of the data used for this study their sources. The various data analysis techniques employed and the regression models are then specified. The chapter ends by discussing the pre and post data analysis robustness checks, tests, and measures taken to ensure the reliability and validity of the findings.

4.1 Research Design

The study adopted a mixed research design; however, the study was predominantly quantitative in nature employing econometric methods. The mixed methods design is based on the premise that all methods have biases and weaknesses; therefore, the combination of multiple data types and research approaches can provide more holistic results (Creswell – Creswell, 2018). Furthermore, in order to enhance the validity and reliability of social research findings, several literature sources advocate for triangulation or the use of mixed-methods – research that combines the use of quantitative and qualitative data collection techniques and analytical procedures (Saunders, et al., 2016). Specifically, this study utilised a *multiphase mixed methods* research design, which is common in the fields of evaluation and program interventions. According to Creswell – Creswell (2018), this advanced design allows for the combination of multiple research strategies. In this regard, the study complemented various quantitative analyses with expert and key informant interviews with officials of the WTO and OECD, as well as document analysis of the Aid for Trade Self-Assessments Questionnaires from government officials of beneficiary countries. The study also combined both first-generation and second-generation techniques statistical methods. According to Hair et al., (2014) second-generation techniques which are referred to as structural equation modeling (SEM) can overcome the weaknesses of first-generation methods such as regression analyses.

The study was also partly evaluative, exploratory, and confirmatory as well as deductive and inductive due to the hypotheses and research questions of this study. The confirmatory and deductive aspect of the study involved hypothesis testing and was informed by economic theory which suggest that both foreign aid and international trade can contribute to economic growth. According to Söderbom et al. (2015) econometric methods are typically used for three related purposes that include policy analysis, testing theory and forecasting. This study sought to investigate the direct and indirect impacts of AfT (which

has both aid and trade components) on economic growth. This objective makes the study confirmatory, since studies are considered as confirmatory when the objective is to test the hypotheses of existing theories and concepts (Hair et al., 2014).

The study was also evaluative because it assessed the effectiveness of the AfT Initiative in achieving its stated policy objectives of export expansion and diversification in beneficiary countries as a means of promoting economic growth. In evaluation studies, the researcher develops an in-depth analysis of a case which can either be a programme, event, activity, process, or one or more individuals or entities within a specified time period (Creswell – Creswell, 2018). In the case of program evaluations for instance, the researcher collects detailed information using a variety of data collection procedures in order to best understand the long-term goals of the programme being evaluated (Creswell – Creswell, 2018). In this study, the focus was on determining the effectiveness of the AfT Initiative in achieving its objectives particularly in middle-income countries from its commencement in 2006 to 2018. This makes the study evaluative in nature since it sought to investigate whether a particular policy instrument (the AfT Initiative) has had the desired impacts with respect improving supply-side trade logistics and infrastructure, export performance, and economic growth in middle-income countries.

The inductive and exploratory aspect of this study involved investigating the potential of AfT in helping countries to escape the MIT as well as the determinants of aid-for-trade effectiveness in middle-income countries. According to Hair et al. (2014) studies are considered as exploratory when the objective is to identify latent patterns in the data particularly in situations where there is no or only little prior knowledge on how the variables are related. To the best of my knowledge, the connection between the AfT and MIT is yet to be analysed in neither the MIT nor the AfT literature respectively.

4.2 Target population, sample, and scope of the study

Since the objective of the study was to determine the potential of the AfT Initiative in helping countries to escape the MIT, the target population for this study was all AfT recipient countries that have classified as middle-income from the year 2006 when the AfT disbursements officially began to date as well the various stakeholders involved in the implementation of the AfT Initiative. Based on the World Bank's historical classification of

countries, in the year 2006, there were 95 countries classified as middle-income. Out of the 95 MICs, data from the OECD indicates that 83 were AfT beneficiaries (Table 1).

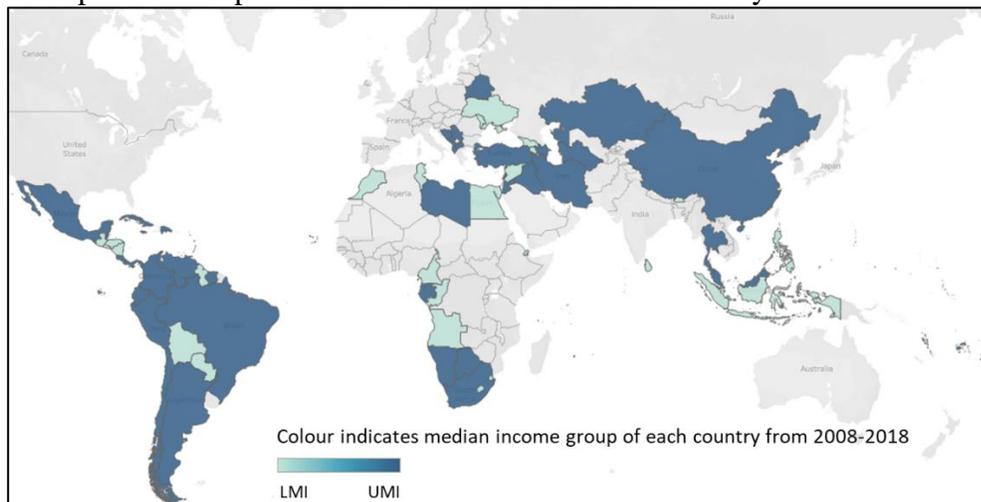
Table 1 Target population and sample for the study

Income Group	No. of countries	AfT Recipients	Sample
Lower-middle income	55	53	53
Upper-middle income	40	30	28
All middle-income	95	83	81

Source Author’s based on data from OECD and World Bank

The goal of this study was to include all the 83 middle-income AfT beneficiary countries in this study; however, due to unavailable and incomplete export performance and other data required for the various analyses in order to answer the research questions and test hypotheses, 2 of the 83 countries were omitted from the stud. A total of 81 countries were included in this study. Figure 1 shows the map of the 81 countries by total AfT received from 2006 to 2018. It should however be noted that the sample size varied for various analysis due to incomplete or unavailable data. The statistical softwares that were used for this study which included Eviews, Gretl, Smart PLS, and SPSS were able to handle missing data by automatically selecting the required sample sizes to obtain optimal results for the respective analyses that will be discussed in the next section.

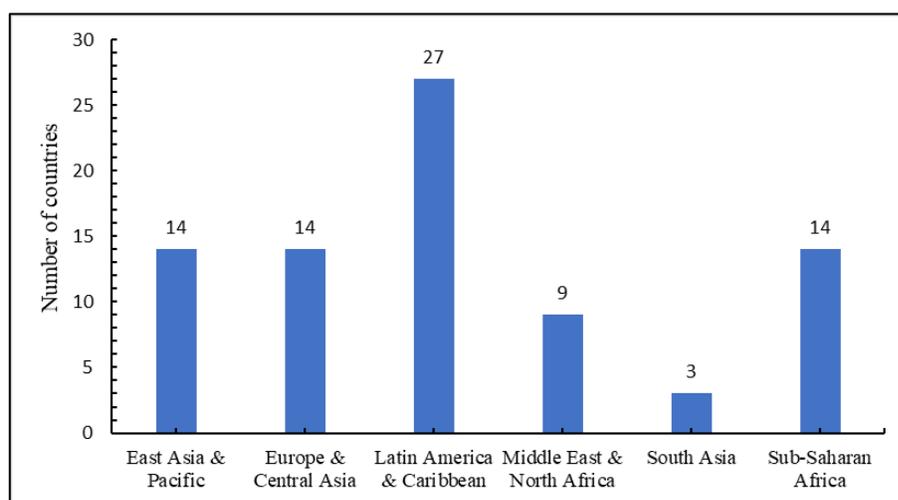
Figure 1 Map of the sample middle-income countries for the study



Source: Author’s construct based on data from OECD

Most of the 81 countries in this study were from the Latin America and Caribbean region (27) followed by the East Asia and Pacific, Europe and Central Asia, and the Sub-Saharan Africa regions which 14 countries respectively. The remain countries were from South Asia, the Middle-East and North Africa. Figure 12 provides a distribution of the sample countries by geographical regions based on World Bank classifications.

Figure 2 Distribution of sample countries by geographic regions



Source Own construction based on World Bank regional classifications

4.3 Data collection procedure, instruments, variables and data sources

As indicated in the previous sections, the study relied on both primary and secondary sources of data as well as quantitative and qualitative data. The data collection procedure for the study was in two stages. The first stage involved the gathering of secondary data on macro level economic parameters for each of the 81 middle-income countries. The data included the following variables: AfT, economic growth, determinants of economic growth, trade performance, determinants of trade, supply-side facilitators and inhibitors. These data were obtained from credible sources including the OECD’s Creditor Reporting System (CRS) aid activity database, the IMF, UNCTADstat, World Bank, and the WTO.

The second stage of data collection involved the gathering data of qualitative relating to the implementation processes and the factors that influenced AfT effectiveness. This data was obtained from 3 main sources: (1) official AfT reports; Self-Assessment Questionnaires

administered by the OECD and WTO and filled out by officials of all participants of the AfT including donors, international organisations, and beneficiary countries; (3) interviews with officials of the OECD, WTO, and the European Commission’s Directorate General for International Partnerships. Table 2 summarises all the data used and their sources.

Table 2 Study variables, data and their sources

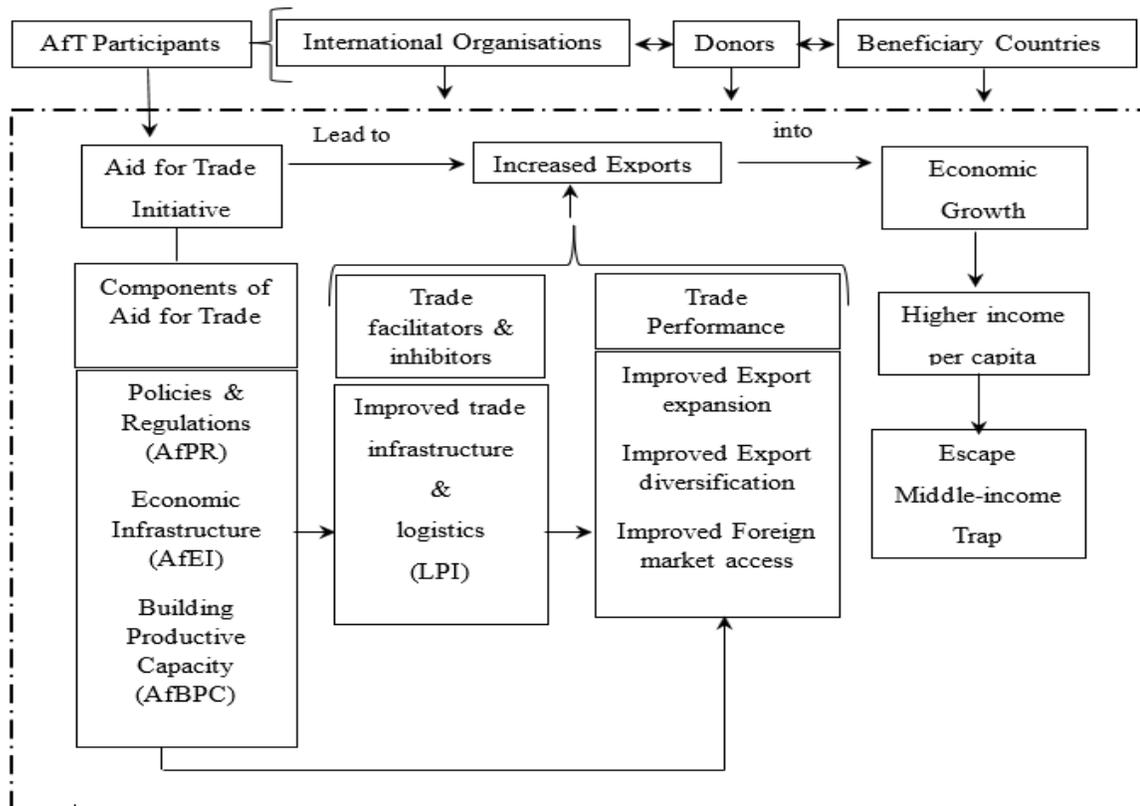
Variable	Indicator	Source
Aid-for-trade	Aid-for-trade (<i>LnAfT</i>) and its components:	OECD
Economic growth	GDP in purchasing power parity PPP in billions (<i>LnGDP</i>)	IMF
	GDP per capita in constant PPP units (<i>LnGDPC</i>)	
Determinant of economic growth	FDI (<i>ZFDI</i>)	UNCTADstat
	Population (<i>LnPop</i>)	
	8 Productive Capacity Indices (<i>ICTs, structural change, transport, energy, private sector, natural capital, human capital, institutions</i>)	
Trade performance	Total Goods and Services Exports (<i>LnEx</i>)	UNCTADstat
	Export diversification absolute numbers (<i>LnAD</i>)	
	Export product concentration index (<i>CI</i>)	
	Export product diversification index (<i>DI</i>)	
	World merchandise export market share (<i>MS</i>)	WTO
	Total Merchandise exports (<i>LnMX</i>)	
Determinant of trade	Population (<i>LnPop</i>)	UNCTADstat
	Geography: ‘1’ if landlocked, ‘0’ if not	UN
	Exchange rate regime: ‘1’ if Flexible, ‘0’ if not	IMF
	WTO dummy: ‘1’ if WTO member, ‘0’ if not	WTO
	Economic shock: ‘1’ if recession year, ‘0’ if not	Eurostat
	Size of economy (<i>LnGDP</i>)	IMF
Trade facilitators & inhibitors	Logistics performance index (<i>LnLPI</i>)	World Bank
Determinants of AfT effectiveness	1. Interview with key informants; 2. Aid for Trade Self-assessment Questionnaires from AfT participants: donors, beneficiary countries, and international organisations; 3. Official OECD and WTO documents and reports	Officials of OECD, WTO European Commission

Source Author’s construct

4.4 Data analysis and statistical techniques

The study sought to answer the question of whether aid-for-trade (AfT) has the potential to help countries to escape the middle-income trap (MIT). In this regard, based on economic growth theory, the objectives of the AfT Initiative, and the existing literature on the MIT, 3 hypotheses were investigated. As indicated in the conceptual framework, AfT can have indirect impacts on economic growth through improvements in export performance and supply-side trade infrastructure and logistics. Various data analysis techniques including qualitative and quantitative methods were employed to investigate these interactions. The analysis of data was done in accordance with the study's conceptual framework (Figure 3).

Figure 3 Conceptual framework for investigating the role of AfT in escaping the MIT



Source Author's construct

4.4.1 Analysis of qualitative data

Since the study adopted a mixed research design, the analyses were done in stages with different methods for the qualitative and quantitative data. The analysis of qualitative

data was done in two stages since qualitative data were obtained from two different sources. Firstly, the information obtained from the Aid for Trade Questionnaires were distilled using document analysis and then organised under pre-set headings corresponding to the dimensions of the hypotheses and research questions of the study. The analysis of primary qualitative data obtained from key informant interviews was first transcribed into Microsoft Word. After transcribing, the responses were organised under pre-set headings corresponding to the hypotheses and research questions just as was done with the data from the questionnaires. The responses were then analysed based on the conceptual framework for the study.

After the data were organised under the respective headings, the next step was thematic analysis which involved the identification of patterns and themes as well as consistencies and differences in the data assembled under each heading. The relevant resulting information was then distilled and used to explain the findings obtained from the quantitative data analyses

4.4.2 Analysis of quantitative data

The quantitative data were analysed using descriptive statistics, correlation analysis, t-tests and various regression analysis models. The descriptive statistics were used to understand the distribution of the key variables whiles the correlation analysis were used to test if there were any significant statistical relationship between AfT and some of the key dependent variables.

Paired-samples T-tests were also use investigate whether there was any significant difference in the trade performance of the study countries 10 years before the AfT Initiative and the last 10 years. The trade performance indicators analysed included the total annual merchandise exports, annual world merchandise export market share, the annual absolute number of export product lines, the annual export concentration index, and annual export diversification index. Table 3 summaries the hypotheses and research questions, their dimensions, and the respective research methods and statistical techniques used to analyse each dimension.

Table 3 Summary of hypotheses, research question, and their respective statistical analysis

Hypothesis/Research Question	Dimensions of analysis	Analytical technique
H₁ : AfT significantly improves the trade performance of middle-income countries	Changes in export performance (by countries, geography, regions); Changes in LPI performance	Descriptive statistics, Paired samples t-test
	Relationships between AfT and export performance	Pearson's product-moment correlation
	Impact of AfT on export performance	Quantile regression
	Relationships between AfT and LPI	Pearson's correlation
	Impact of AfT on LPI	Quantile regression
H₂ and H₃ : AfT has had a statistically significant positive impact on economic growth in middle-income countries through improved supply side logistics and infrastructure / improved export performance	AfT effects on economic growth through export performance and LPI	PLS-SEM
H₄ : AfT is a factor can enable middle-income countries to escape the MIT through significant positive impacts on their economic growth.	Impact of AfT on growth	Hierarchical multiple regression
	Lagged effects of AfT on growth	Dynamic panel regression
	Short and long-run effects of AfT on growth	Variance decomposition
	Impact of AfT on economic growth by income level	Quantile regression
	Direct and indirect effects of AfT on growth	PLS-SEM
RQ : What factors affected the effectiveness of AfT in middle-income countries?	Measures put in place to ensure AfT effectiveness	Document and thematic analysis of official reports and key informant interviews
	Challenges encountered during implementation of AfT	
	Conditions for AfT effectiveness	

Source Author's construct.

In view of the study objectives, 5 different multiple regression approaches were used. These approaches were hierarchical multiple regression (also called sequential regression), dynamic panel regression, panel quantile regression, vector autoregressive regression (VAR) variance decomposition, and partial least squares structural equation modeling (PLS-SEM). The various approaches were used in order to capture different dimensions of the effect of

AfT on economic growth in the middle-income countries. For instance, the HMR shows the magnitude of AfT contributions when other determinants of growth are controlled for; the variance decomposition shows the contributions of AfT to growth over time; the Systems GMM shows whether the impact of AfT on growth is immediate or lagged; the quantile regression shows the impact of AfT on growth based on the distribution of the income level of countries; while the PLS-SEM shows both the direct and indirect impacts of AfT on economic growth. In all the analyses and regression models used in the study, the total AfT ($LnAfT$) or its components constituted the independent variable of interest. However, depending on the hypothesis and dimensions, the set of independent variables and dependent variables changed. The key findings from the analyses are discussed in the next section

5. Scientific results of the PhD dissertation, its practical importance

The study sought to determine the potential of the aid for Aid for Trade Initiative (AfTI) in helping countries to escape the middle-income trap (MIT). Since the objective of the AfTI was to contribute to economic growth through improvements in supply side trade logistics and infrastructure as well as through improved export performance couple with the consensus that escaping the MIT requires sustained economic growth, the study investigated the following 4 hypotheses:

H_1 : AfT has had a statistically significant positive impact on the trade performance of middle-income countries.

H_2 : AfT has a statistically significant positive impact on economic growth in middle-income countries through improved export performance.

H_3 : AfT has a statistically significant positive impact on economic growth in middle-income countries through improved supply side logistics and infrastructure.

H_4 : AfT can enable middle-income countries to escape the MIT through significant impacts on their economic growth.

Due to the limitations of quantitative research, the study complemented the quantitative analyses with a qualitative study which investigated the factors that influenced the effectiveness of AfT from the perspective various participants of the Aid for Trade Initiative such as the donors and international development organisations as well the AfT beneficiaries. The conclusions and implications of the findings with respect the hypothesis and main research question are as follows:

Hypothesis 1

The study partially accepts the H_1 that AfT has had a statistically significant positive impact on the trade performance of middle-income countries since the t-test results showed that overall, there had been a statistically significant increase in the annual merchandise exports of the middle-income countries but not world merchandise market share. Also, there had not been any significant change in the export concentration and diversification indices of the middle-income countries as a whole. Pearson's product moment correlation analyses also showed that there had been a significant relationship between aid-for-trade and various measures of export performance. However, quantile regression results suggest that the impacts of AfT on the various export performance measures were asymmetrical across the middle-income countries.

Hypothesis 2

The study also affirms the H_2 that AfT has a statistically significant positive impact on economic growth in middle-income countries through improved export performance since the results of the PLS-SEM indicates that AfT has significant effects on economic growth in the middle-income countries through the export diversification.

Hypothesis 3

The study also affirms the H_3 that AfT has a positive impact on economic growth in middle-income countries through improvements in trade logistics and infrastructure since

the results of the PLS-SEM indicates that AfT has significant effects on economic growth in the middle-income countries through the logistics performance index.

Hypothesis 4

The study also affirms the H_4 that AfT is a factor that can help countries to escape the MIT since the study finds that AfT makes a unique contribution to economic growth when about 80% of the other determinants of economic growth are controlled for. However, the impacts of AfT on growth were asymmetrical, indirect, and lagged.

Practical implications of the findings

It can be concluded that AfT is a factor that can help countries to escape the MIT but the potential is not the same for all middle-income countries. Although the AfT has the potential to help some countries to escape the MIT, the low r-square change from the hierarchical multiple regression is also an indication that other country specific productive capacity factors such as the quality of institutions and human capital among other factors are very important for promoting economic growth in the middle-income countries. The results of qualitative analyses of this study further suggest that in order for AfT to be more effective in achieving its various development objectives including economic growth in middle-income countries, policy makers and stakeholders would need to address the various country specific challenges such as poor infrastructure, limited technical and institutional capacity, difficulties accessing foreign markets, and inadequate funding as well as the program related challenges such as poor coordination at the donor, national, and local levels, divergent priorities between donors and partners, and inadequate stakeholder consultations and collaborations that were identified among the numerous challenges that adversely impacted the effectiveness of the AfT Initiative. Also, in order for the AfT Initiative to be more effective in helping countries to escape the MIT, policy makers should have specific targets and projects deliberately aimed at promoting sustained economic growth in the long term.

At a time when the COVID-19 has caused one of greatest recessions in recent history and has impacted all aspects of the global economy with the middle-income countries being more adversely affected, the results of this study have highlighted the importance export diversification which had already been recognized as being critical for making countries

more resilient to global economic shocks and promoting sustained economic growth and development. Since escaping the MIT requires self-sustaining growth, the pandemic has emphasized the need for beneficiary countries use existing resources efficiently and leverage the opportunities provided by the AfT Initiative to diversify their economies and generate self-sustaining growth that would make them less dependent on aid and more resilient to shocks in the future. In the long run, the results of this study suggest that the aid for building productive capacity and the aid for building economic infrastructure are more significant for impacting economic growth as well as improving the export performance and diversification in the middle-income countries. However, economic infrastructure would have to be accompanied by capacity building of the youth particularly with digital and entrepreneurial skills to enable them to take advantage of opportunities provided by AfT and Industry 4.0

As the first empirical study that investigated the direct and indirect impacts of AfT on economic growth in middle-income countries, this study provides useful feedback to the OECD and WTO as well as other stakeholders and policy makers on key aspects of the AfT Initiative's impacts that were yet to be evaluated. In this regard the results of this study should inform future AfT policy and program strategies as well as monitoring and evaluation exercises.

Contributions to literature

The findings of this study are consistent with trade literature that suggest that deliberate trade policies can promoted economic growth. Specifically, the findings resonate with the vision of the AfT Initiative that investments in trade logistics and infrastructure as well as export diversification can enhance the growth prospects of developing countries and contribute to the SDGs which in the long run could reduce poverty and improve the wellbeing of citizens in the beneficiary countries. The findings of this study are also consistent with earlier studies on AfT that have found that positive impacts on various measures of trade performance. The findings of this study are also consistent with economic growth literature as well as AfT literature that suggest that both international trade and foreign aid contribute to economic growth and could therefore help countries to escape the MIT. On the other hand, the weak impacts coupled with the mixed results and asymmetrical findings across countries also contributes to the ongoing debates about the effectiveness of both trade openness and foreign aid in achieving socioeconomic development goals.

Future research possibilities

A limitation of this study is that it covers the period from 2006 to 2018 so it does not allow us to understand how the COVID-19 pandemic has affected the AfT Initiative's impact on economic growth. However, this can be considered in future studies. The study also recommends for more in-depth country case studies on the impacts of AfT at both the macro and micro levels to understand how unique country characteristics impact AfT effectiveness. Additional studies can also compare the impacts of AfT in the middle-income and countries in other groups. Also, future studies can investigate how AfT from different donor agencies and international development organisations impact growth.

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7. List of publications during PhD study period

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6. *The Middle-Income Trap, Sustainable Development and the Ghana Beyond Aid Agenda: Why we should be Concerned.* Scientific Conference organized at the Szent István University Godollo – Hungary. 6th March, 2019.