

# Impact of Losing Preferential Status: Evidence from the EU's Generalized System of Preferences Reform

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## RESEARCH QUESTION

Can the developing countries sustain their export levels and variety to the EU without receiving GSP tariff concessions?

## BACKGROUND AND MOTIVATION

- Generalized System of Preferences (GSP) allows developed countries to grant non-reciprocal tariff concessions to developing and least developed countries.
- Lower tariff rates make these developing countries' products competitive and thus provides critical market access.
- Empirical evidence shows that GSP does boost exports of the beneficiary countries. Withdrawing this preferential treatment hurts beneficiary countries' exports.
- The European Union (EU) reformed its GSP w.e.f. January 1, 2014, and preferential treatment was withdrawn for several developing countries and small territories.

## OBJECTIVE

Estimate effect of the EU GSP reform on:

- Export volumes and probability of exporting GSP eligible products
- Concentration/diversification of export basket
- Trade diversion to rest of the world

## DATA

- Eurostat's international trade in goods database
- Three-way balanced panel consisting of imports of all products from all GSP beneficiaries (current and former) for the period 2010 to 2017
- Annual values of imports to EU from 134 countries. Of these, 52 developing countries and territories form treatment group, remaining 82 countries form control group
- Defined at Combined Nomenclature (CN) 8 level, panel contains 19,949 diverse product lines
- Data for world exports obtained from UN Comtrade database

## EMPIRICAL SPECIFICATION

### Export Volumes

$$\ln exports_{cpt} = \alpha_0 + \alpha_1 \text{Country} * \text{GSPproduct} * \text{Post} + \lambda_{cp} + \rho_{ct} + \theta_{pt} + \epsilon_{cpt}$$

### Export Probability

$$\text{exportdummy}_{cpt} = \beta_0 + \beta_1 \text{Country} * \text{GSPproduct} * \text{Post} + \lambda_{cp} + \rho_{ct} + \theta_{pt} + \epsilon_{cpt}$$

### Export Concentration/Diversification

$$\text{HHI}_{ct} = \gamma_0 + \gamma_1 \text{Country} * \text{Post} + \rho_c + \theta_t + \epsilon_{ct}$$

### World Exports

$$\ln exports_{cpt} = \delta_0 + \delta_1 \text{Country} * \text{Post} + \lambda_{cp} + \theta_{pt} + \epsilon_{cpt}$$

## RESULTS

### Intent to Treat Effect on Export Volumes and Probability

| Dependent Variable:          | (1)<br>lnexports                                  | (2)<br>export dummy                               |
|------------------------------|---|---|
| Country x GSP product x Post | -0.016***<br>(0.003)                              | -0.002***<br>(0.0003)                             |
| Control Mean                 | 0.0185***   | -   |
| Fixed Effects                | country-product,<br>country-year,<br>product-year | country-product,<br>country-year,<br>product-year |
| Observations                 | 21,385,328  | 21,385,328  |
| Adjusted R <sup>2</sup>      | 0.76  | 0.66  |

## RESULTS

### Heterogeneous Treatment Effects (by Export Volumes)

| Dependent Variable:          | Below median exports                              |   | Above median exports                              |   |
|------------------------------|---|---|---|---|
|                              | (1)<br>lnexports                                  | (2)<br>export dummy                               | (3)<br>lnexports                                  | (4)<br>export dummy                               |
| Country x GSP product x Post | -0.008***<br>(0.002)                              | -0.001***<br>(0.0002)                             | -0.017***<br>(0.006)                              | -0.002***<br>(0.0006)                             |
| Fixed Effects                | country-product,<br>country-year,<br>product-year | country-product,<br>country-year,<br>product-year | country-product,<br>country-year,<br>product-year | country-product,<br>country-year,<br>product-year |
| Observations                 | 9,356,081   | 9,356,081   | 9,356,081   | 9,356,081   |
| Adjusted R <sup>2</sup>      | 0.49  | 0.39  | 0.79  | 0.69  |

### Heterogeneous Treatment Effects (by Products)

| Dependent Variable: lnexports | (1)<br>Mineral Products                           | (2)<br>Machinery<br>and Appliances                | (3)<br>Textiles<br>and Textile Articles           | (4)<br>Base Metals<br>and Articles thereof        | (5)<br>Products of Chemical<br>or Allied Industries |
|-------------------------------|---|---|---|---|---|
|                               | Country x GSP product x Post                      | 0.002<br>(0.02)                                   | -0.036**<br>(0.018)                               | -0.081<br>(0.053)                                 | -0.033***<br>(0.009)                                |
| Fixed Effects                 | country-product,<br>country-year,<br>product-year | country-product,<br>country-year,<br>product-year | country-product,<br>country-year,<br>product-year | country-product,<br>country-year,<br>product-year | country-product,<br>country-year,<br>product-year   |
| Observations                  | 514,560   | 3,804,528   | 2,011,072   | 2,347,680   | 2,676,784   |
| Adjusted R <sup>2</sup>       | 0.71  | 0.73  | 0.83  | 0.74  | 0.75  |

## CONCLUSIONS

- Estimates show that withdrawal of GSP preferential treatment adversely affected countries' exports to the EU.
- The incidence of loss is greater for countries exporting more than the median exports and for manufactured products.
- This paper provides crucial evidence needed to guide policy decisions about the future of the GSP program.