

Preferences erosion and the developing country exports to the EU: a dynamic panel gravity approach

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Abstract

The 2003 reform of the Common agricultural policy has implied a drastic change of the level and instruments of the border protection in the rice industry. Because the EU grants trade preferences to a considerable number of developing countries exporting rice, the reform has implied preferences erosion as well. This paper addresses the issue of the impact of preferences erosion on the rice exports of the preferred countries to the EU, with the aim of contributing to the literature from two main points of view: first, by proposing a new empirical approach to compute the preferential margin when tariff rate quotas are in force which is based on the assumption of the existence of fixed costs and economies of scale in the trading industry; second, by estimating the trade elasticities of preferences by means of a dynamic panel gravity equation to deal with the issue of endogeneity of the preferential margins and to take into account of the persistency in bilateral trade flows due to sunk costs faced by the trading industry. Results show that the way by which preferential margins are calculated matters significantly when assessing the existence and extent of preferences erosion and estimating the values of the trade elasticities. Further, estimations highlight that the trade impact of preferences is still very high for some of the preferred countries.

Keywords: trade preferences, gravity model, GMM, tariff rate quotas, EU rice policy

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