

Evaluating the Impact of Trade Interventions

Building impact evaluation into trade projects could lead to better policy design and a more credible case for “aid for trade”

The focus of trade policy has shifted in recent years from economy-wide reductions in tariffs and trade restrictions toward targeted interventions aimed at reducing trade costs and promoting exports. At the same time the international development community has galvanized around “aid for trade” as a way to help low-income countries integrate with the global economy. Significant national resources and international assistance are being devoted to trade facilitation and export promotion.

The environment in which trade-related assistance is provided has also changed. In times of fiscal austerity, taxpayers increasingly question the justification for large aid flows and demand results and accountability. The development community has struggled to respond to these demands because there is surprisingly little evidence about what works and what does not in trade and industrial policies. A review of 85 recent World Bank projects relating to trade revealed that only 5 included rigorous evaluation components. And there is almost no micro-economic evidence to guide specific trade interventions.

In fields such as health and education, impact evaluation methods have proved to be powerful tools to help guide policy choices and minimize the cost of interventions. The usual excuse for not using these methods in assessing the effectiveness of trade assistance is that the “clinical” nature of the treatment needed for a proper definition of treatment and control groups is absent from trade policy. A new volume edited by Cadot, Fernandes, Gourdon, and Mattoo intends to show that *trade exceptionalism*—the notion that trade-related interventions are inherently not amenable to impact evaluation—is limited to traditional trade policies. More recent, focused

trade-related interventions can be rigorously evaluated as long as one is not wedded to a particular methodology such as randomized control trials.

The volume presents examples of impact evaluations of trade-related assistance using a range of methods (experimental and nonexperimental), highlighting the challenges arising in a trade context and the lessons being learned. These methods, already applied in some recent studies, have produced interesting and unexpected results. Consider examples featured in three chapters of the volume.

In an ex post evaluation of export promotion programs in six Latin American countries, using rich firm-level data sets, Christian Volpe shows that these programs were effective in facilitating export expansion primarily along the extensive margin (through an increase in the number of products exported or export markets served) rather than the intensive margin (through an increase in exports of existing products to existing markets). He also shows that programs benefited small, relatively inexperienced firms more than larger, established exporters and that bundled services providing support to firms throughout the export development process were more effective than isolated actions.

Julien Gourdon, Jean-Michel Marchat, Siddharth Sharma, and Tara Vishwanath use similar ex post evaluation methods to assess the impact of a World Bank–financed export promotion program in Tunisia (FAMEX) that provided a mix of counseling and matching grants to new exporters. Their findings suggest that export promotion has a large significant effect on overall export growth: 39 percent higher average annual growth for program beneficiaries than for the control group over a four-year period. The effect of the program on the extensive margin of exports—in terms of products and destinations—is more subdued: about 5 percent higher growth for beneficiaries that is significant only for destinations. The authors also find a significant increase in employment

growth: 10 percent more for program beneficiaries than for control firms. The effect on export growth is stronger for firms that were initially only marginal exporters. Interestingly, the effect of export promotion is significantly larger for services firms than for manufacturing firms.

Mohini Datt and Dean Yang analyze a natural experiment in which the Philippine government suddenly reduced the minimum value threshold under which shipments were exempt from preshipment inspection, closing a loophole that had encouraged importers to slice shipments so as to escape inspection. They show that the reform failed to curb underinvoicing and thus to raise duty collection because importers switched to an alternative loophole: the use of an export processing zone. The Philippine government ultimately was no better off and, because this alternative loophole involved high fixed costs (setting up facilities in the zone), importers were worse off. The authors also discuss the effects of a reform in Colombia where the government sought to remedy the undervaluation of certain imports by mandating preshipment inspection for a subset of products. This left open the loophole of misclassifying those products as similar ones that did not require such inspection. Both cases illustrate the importance of careful, incentive-compatible design of reform.

The volume argues that systematically building impact evaluation into trade projects could lead to better policy design and a more credible case for “aid for trade.”

Olivier Cadot, Ana Margarida Fernandes, Julien Gourdon, and Aaditya Mattoo, eds. 2011. *Where to Spend the Next Million? Applying Impact Evaluation to Trade Assistance*. London: Centre for Economic Policy Research.