Comments to „Small Trade Flows, Compliance Costs and Trade Preferences: The Case of EU Imports from African LDCs“, Economics – The Open-Access, Open-Assessment E-Journal, Discussion Paper No. 2011-42

I think the general topic of the paper is very interesting. Why are preferences granted for imports of developing countries to the EU not fully utilized? And why are most of the trade flows from developing countries small?

However, a couple of questions arose when reading the paper:

i) How do you actually motivate the definition for the potential value of preferences (PVOP)? I did not see how your definition accounts for fixed costs (which you argue are important), for example.
ii) Given the definition of PVOP, how would you defend the exogeneity of PVOP in your regression?
iii) Concerning the regression model I would like to have seen a more detailed discussion about the underlying latent process/theory.
iv) I did not find where you explain for what the indices "j" and "k" stand for.
v) You added in your regression dummies for COUNTRY and PRODUCT. When I got the interpretation right, "j" and "k" stand for countries and products. But then they would work like fixed effects. However, I wondered how you deal with the incidental parameters problem in this non-linear model (see for a general discussion of the incidental parameter problem, Greene , pp. 659ff and for the case of probit models, pp. 761ff).