

Response to Reviewer No. 1

I would like to thank Reviewer no. 1 for valuable and constructive comments. Below, I respond to these comments.

1) The reviewer comments that a relevant statement has been left without a reference to the literature: on page 7: “The discussion above suggests [...] In fact, it has also been suggested that preferences are not just ineffective, but may even have overall negative effects”.

The point of this statement was to act as an introduction to the following section of the text, where the relevant literature is referenced for each of the discussed problems. Since this meaning was obviously unclear, I have clarified it in the text. Further, a new Section 2.1 has also been added to offer a review of the literature on assessment of trade effects from trade preferences, and a new Table 1 has been added in the Appendix which summarizes these studies, so this should further help to give the reader a good overview of the relevant literature.

2) To facilitate comparisons, the reviewer suggests it would be good to include a table summarizing the empirical literature regarding trade preferences and trade facilitation. This is a good idea, and I have added two new tables in the Appendix. The new Table 1 summarizes the key studies on trade preferences, and a new Table 2 summarizes the empirical studies on trade facilitation. In both tables, studies are summarized with respect to sample, research question, methodology and results. Care has been taken to report the results in such a way that comparisons are facilitated (for instance by using regression coefficients to recalculate the corresponding gross trade creation in a consistent way for all the trade preference studies, and, when possible and appropriate, expressing the results as elasticities for the trade facilitation studies).

3) The reviewer suggests that the subsection “Effects of Trade in the Context of European Integration” should be included with the previous subsection “Effects on Trade”. I have followed this suggestion. The reviewer also suggests that the joint section about “Effects on Foreign Direct Investment” and “Effects on Government Revenue” should be separated into two sections. This suggestion has been followed. The reviewer also asks if it is possible to expand the discussion about the latter two issues, but, unfortunately, the very limited existing literature makes this very difficult. I have therefore added a comment in footnote 15, pointing out that more research is needed in order to shed light on these issues.

4) The reviewer asks:

Could the author cite any quantitative study in “3.4 Concrete Examples of Reform” for both trade preferences and trade facilitation and compare particular measures?

and suggests that the current Section 3.4 which outlines examples of trade facilitation could be replaced by a Section 4 which would be titled “Concrete Examples of Trade Preferences and Trade Facilitation Reforms”.

To respond to these comments, first of all, I am not aware of any quantitative study that does this, so I can unfortunately not include that in the text. Further, while I sympathize with the idea to compare trade preferences and trade facilitation as directly as possible, I am afraid that it would, in my opinion, be misleading to try to add discussions about reforms of trade preferences to Section 3.4, and thereby make it a joint section. Let me try to explain my objections. First, and most importantly, the reforms presented in Section 3.4. are examples of what in practice *constitutes trade facilitation*, i.e. this is a way to really get to the bottom of what countries can do if they want to pursue trade facilitation. The corresponding text regarding trade preferences would be to describe that they are – simply put – non-reciprocal improvements in market access offered by industrialized countries to help increase developing countries’ exports, and perhaps to outline the precise market access offered under different regimes. This explanation is already given in the beginning of Section 2, where trade preferences are introduced and a brief comparison of various EU schemes is made, so adding it here would – in my opinion – unnecessarily confuse the reader without offering any new information. Secondly, discussing the kinds of trade procedure reforms that constitute trade facilitation together with suggestions for how to reform the system of trade procedures would – in a sense – be like comparing apples and oranges. What is discussed in Section 3.4. are very detailed and concrete ways to change procedures, such as training staff, creating web pages for easy access of information etc. Reforms to trade preferences would, by contrast, not refer to these field-level reforms, but would (or could) refer to system changes in the policy regime, such as widening preference margins or granting preferences on a contractual rather than unilateral basis (this is what is discussed in Section 2.2). Given that those ways to improve market access are so different, it would, I would argue, be confusing and even potentially misleading to try to squeeze all of the discussion into the same framework. Therefore, while certainly appreciating the suggestion made by the referee, and

agreeing in full that it would be beneficial for policy makers if we can find a way to better summarize and compare the options before them, I have chosen not to change the text in this regard. However, as noted above I have added new tables summarizing the empirical work in the Appendix, and this should go some way towards addressing the reviewer's comment. Also, the two sets of policies are compared and discussed in a more overall fashion in the last section, so hopefully, this should give readers a reasonable overview of the issues at hand.