



Are the benefits of export support durable? Evidence from Tunisia[☆]



Olivier Cadot^a, Ana M. Fernandes^{b,*}, Julien Gourdon^c, Aaditya Mattoo^b

^a University of Lausanne, CEPR, FERDI, Switzerland

^b Development Economics Research Group, World Bank, United States

^c CEPII, France

ARTICLE INFO

Article history:

Received 1 November 2013

Received in revised form 10 July 2015

Accepted 17 July 2015

Available online 4 August 2015

JEL classification:

F13

F14

L15

L25

O17

O24

C23

Keywords:

Export promotion

Export margins

Tunisia

Impact evaluation

Propensity-score matching

Matching grant

ABSTRACT

This paper evaluates the effects of the FAMEX export promotion program in Tunisia on the performance of beneficiary firms. While most studies assess only the short-term impact of such programs, we consider also the longer-term impact. Our estimates suggest that the average beneficiary initially saw both higher overall export levels and greater diversification across destinations and products. However, three years after the intervention, beneficiaries' export levels and diversification were no longer significantly different from those of a control group. Furthermore, the effects were heterogeneous across firms: small and large firms saw no positive impact on export levels, and even the positive impact on medium sized firms was temporary. The temporariness of the impact was not due to spillovers to non-beneficiary firms which helped them to catch up, or to greater exposure of beneficiaries to crisis-affected economies. Rather, the impact may be transient because the program did not lead to the enhancements in product quality or sophistication which could have strengthened competitiveness durably. Notwithstanding its transient effect, the relatively low-cost FAMEX still generated two Tunisian Dinars of private profits per Dinar of program expenditure, and the additional corporate tax revenue just covered the public cost of the program.

© 2015 The International Bank for Reconstruction and Development/The World Bank. Published by Elsevier B.V. All rights reserved.

[☆] The authors are especially grateful to two anonymous referees and the editor for their very useful suggestions. The paper is a substantially modified version of the 2012 World Bank working paper with the same title. We are also grateful to Hamid Alavi, Jeronimo Carballo, Tani Fukui, Alan Gelb, Beata Javorcik, Daniel Lederman, Jean-Michel Marchat, Mine Senses, and Christian Volpe, for their useful comments and discussions, to Yasusuki Todo for sharing his matching methodology and to participants at CEPII, the Center for Economic Studies at the U.S. Census Bureau, the 2011 Conference on Trade and Firms in Aix en Provence, the 2011 World Bank-IGC workshop on "Trade policy for growth", the 2012 International Industrial Organization Conference, the Nova School of Business and Economics, the Paris School of Economics, the 2011 Southern Economic Association Meetings, the University of Lausanne, the University of Illinois at Urbana-Champaign, the 2012 FERDI-ITC-World Bank workshop on "Aid for Trade: What Have we Learnt? Which way Ahead?", the 2012 IDB Workshop on the Effects of Trade and Investment Promotion, the 2013 Summer Meetings of the Econometric Society, and the World Bank workshop of the Chief Economist of the Middle East and North Africa Region for comments. We are particularly thankful to Bob Rijkers and Hassen Arouri at Tunisia's National Statistical Institute for providing us with statistics on firms' profit margins. Research for this paper has been supported in part by the World Bank's Multidonor Trust Fund for Trade and Development TF015051 and through the Strategic Research Partnership on Economic Development as well as by Switzerland's NCCR "trade regulation", work package WP6 on impact assessment, and by France's Agence Nationale de la Recherche under grants ANR-10-LABX-14-01 and ANR-12-JSH1-0002-01. The findings expressed in this paper are those of the authors and do not necessarily represent the views of the World Bank.

* Corresponding author at: 1818 H Street NW, Washington DC 20433.

1. Introduction

Since trade liberalization *per se* has not always led to improved export performance, the focus of trade policy has shifted in recent years toward trade facilitation and export promotion. Significant resources are being devoted to export-processing zones, exporter assistance programs, and projects aimed at modernizing border management and customs procedures even though there is not much evidence of their impact. This paper contributes to the nascent literature on the evaluation of targeted export-assistance programs by assessing the firm-level effects of a recent export promotion program in Tunisia. Whereas existing evaluations typically focus on the contemporaneous or short-term effect of interventions, we also assess the longer-term impact.¹ Furthermore, while evaluations usually only assess whether a program works, we consider also alternative explanations for the observed results.

The literature assessing the effectiveness of export promotion has developed along two strands. The older one relies on cross-country

¹ This helps correct what Ravallion (2008) has called the "myopia bias", whereby evaluation that focused on short-term effects may tilt incentives toward development projects that yield quick results.

evidence and examines effects on aggregate export performance. Thus, Rose (2007) used a gravity equation to show that diplomatic representations had a positive effect on bilateral trade flows. Lederman et al. (2010) showed that export promotion activities, after a long history of failure, in particular in developing countries where they coexisted with import substitution policies and currency overvaluation, had recently more success in increasing aggregate exports, particularly when the private sector was involved in the management of promotion activities.²

A more recent strand of the literature has evaluated export promotion programs using quasi-experimental methods, comparing the export performance of treated firms with that of a control group. Since enrollment into export promotion programs is not random, most papers control for selection through matching, fixed effects, or two-step (instrumental variables or Heckman) estimation methods. The first broad finding is that export promotion seems to be more successful at improving the performance of established exporters than at encouraging non-exporters to start exporting (Bernard and Jensen, 2004; Görg et al., 2008; Girma et al., 2009). This is consistent with the literature on heterogeneous firms and trade, which suggests that exporters and non-exporters differ in terms of productivity and a host of other firm characteristics (see, e.g. Bernard et al., 2007) which export promotion may not be able to affect. The second broad finding is that for established exporters, the impact is stronger along the extensive margin than along the intensive one (Alvarez and Crespi, 2000; Volpe and Carballo, 2008),³ suggesting that assistance may be more successful in helping firms overcome hurdles to break into new markets (product- or destination-wise) than in ramping up export volumes.⁴ These papers break new ground in terms of rigorous evaluation of trade interventions, but focus primarily on the short-term effects of interventions. To our knowledge, the only paper that looks explicitly at the lingering effects of export promotion is van Biesebroeck et al. (forthcoming) who find that Canadian firms which received assistance from Canada's Trade Commissioner Services at any time in the past exported significantly more than the control group.

Our paper examines the short-term and longer-term impact of Tunisia's export promotion program, FAMEX, which provided matching grants to Tunisian firms to implement export business plans. As stated in the World Bank's Project Appraisal Document (PAD) (World Bank, 2004), FAMEX's primary objective was "to improve access to export markets", the corresponding performance indicator being "[t]otal incremental export value by the beneficiary enterprises." We use this indicator as our baseline performance outcome variable, although we explore a number of other dimensions as well, including product and destination diversification, unit values, product sophistication, and distance to destinations.

We combine several sources of firm-level data—FAMEX program data, National Statistical Institute and Investment Promotion Agency data, and customs transaction data—into a unique, rich dataset on Tunisian exporters. The inclusion in the merged dataset of customs data on exports eliminates the risk of recall bias in outcome variables, which tends to arise when public programs are evaluated ex-post using surveys.⁵ Our estimation method is the propensity score weighted

regression method proposed by Hirano et al. (2003), where weights are obtained from a probit regression for selection into the FAMEX program that accounts for past firm export performance, and where we also include firm fixed effects.

We find that, compared to a control group, FAMEX beneficiaries initially enjoyed a boost in their total exports accompanied by greater diversification across destinations and products. However, all these effects vanished after three years. Even the temporary effect was heterogeneous across firms, being significant only for medium-sized firms (between 20 and 100 employees). We find no evidence that the temporariness of FAMEX's impact reflected spillovers to non-beneficiary firms which helped them to catch up, or greater exposure of beneficiary firms to crisis-affected economies. Rather, the impact may have been temporary because it was hard for a short-lived, arm's length FAMEX-type intervention to durably enhance competitiveness. Indeed, we found that the program did not lead to any improvements in product quality as would be reflected in higher unit prices, or in an indicator of product sophistication. Instead, it primarily benefited firms that initially had no internal export unit, suggesting that assistance was rudimentary. These findings suggest that FAMEX may have placed too much emphasis on "low-hanging fruits" (helping domestic exporters attend or set up a representation in foreign fairs) rather than on more complex activities aimed at improving products and processes, which would improve longer-term competitiveness.

In spite of FAMEX's relatively transient impact, the relatively low-cost intervention still generated about 2 Tunisian Dinars of additional profits per Dinar of expenditure on the program. The firms' benefit-cost ratio was 3.57 while the government just broke even. These estimates suggest a high degree of internalization of the benefits and raise the question of why the firms did not undertake such investments unilaterally. Of course, firms' inability to borrow against future profits or being poorly informed about the benefits of investments in export promotion, could still provide a rationale for the FAMEX program.

The paper is organized as follows. Section 2 describes the export promotion program and Section 3 presents the data. Section 4 discusses estimation issues. Section 5 presents baseline FAMEX treatment effects. Section 6 examines alternative explanations for our main results and estimates the economic magnitude of the effect. Section 7 concludes.

2. Export promotion in Tunisia

The Tunisian government has worked since the mid-1990s to reduce the traditional anti-export bias of Tunisia's trade policy (World Bank, 2004). Our analysis focuses on FAMEX, a major demand-driven program whose aim was to help Tunisian firms overcome barriers to sell in foreign markets and enhance their competitiveness.⁶ The program's rationale was that Tunisian firms were poorly informed about export markets and had difficulty identifying the right target markets, product segments, and sales channels.

The program provided firms with matching grants co-financing 50% of the cost of their export business plans. In terms of firm size, the minimum annual turnover required for FAMEX eligibility was 200,000

² The authors regress country-level exports per capita on the budgets of export-promotion agencies (also per capita) and a host of country-level control variables. The agencies' budgets are instrumented with the agencies' age and interacted, inter alia, with management modes, one of which is private sector involvement.

³ Girma et al. (2009) find a positive impact along the intensive margin but they consider the special case of production subsidies.

⁴ See Rangan and Lawrence (1999) and references therein on the hurdles facing the internationalization of firms. Assistance may have stronger effects for small firms, perhaps because they face relatively greater hurdles, as Volpe and Carballo (2010) find in the case of an export promotion program in Chile.

⁵ In the case of FAMEX, the World Bank collected firm-level survey data to analyze the impact of the program and the corresponding analysis is described in Gourdon et al. (2011).

⁶ The FAMEX program also helped to build the institutional capacity of local professional organizations (export associations, chambers of commerce, and professional consulting organizations) and to strengthen the export consulting sector in Tunisia. Another component of the second phase of the World Bank's Export Development Project (of which FAMEX was a component) focused on trade facilitation, including investments and technical assistance to modernize customs procedures, through a combination of investments in hardware and software and procedural improvements. These components—if effective—are likely to have benefited Tunisian firms broadly and thus do not necessarily contaminate the identification of FAMEX effects. We will control in all specifications for sector-year fixed effects which should absorb the effects of those components.

Download English Version:

<https://daneshyari.com/en/article/962523>

Download Persian Version:

<https://daneshyari.com/article/962523>

[Daneshyari.com](https://daneshyari.com)