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November, 2026

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Keywords: Trade redirection, trade preferences, EU, Cambodia

JEL classification: F13, F14, F15, F51

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Does the EU's Withdrawal of Tariff Preferences Induce Trade Redirection? Evidence from Cambodia[†]

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October 2026

Abstract

The European Union (EU) partially withdrew tariff preferences for Cambodia in August 2020 amid concerns over democratic backsliding. This paper examines whether Cambodia redirected its exports from the EU to third-country markets following the EU's withdrawal. Because the EU removed tariff preferences only for selected garment and footwear products, we employ a difference-in-differences strategy that compares changes in Cambodia's exports to non-EU markets between affected and unaffected products. Using Cambodian export data from 2017 to 2024, we find no evidence that exports of affected products increased to non-EU destinations, suggesting the absence of trade redirection. Instead, exports of affected footwear products declined by approximately 50%. These findings suggest that Cambodia's response to the EU's withdrawal was characterized by export contraction rather than export redirection. One potential explanation is that Cambodia's integration into buyer-driven global value chains may have limited exporters' ability to reallocate sales across markets.

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1. Introduction

Non-reciprocal trade preference schemes, such as the Generalized System of Preferences (GSP), promote export growth in beneficiary developing economies by granting preferential access to advanced markets (Gil-Pareja et al., 2014). Consequently, the withdrawal of these preferential tariffs depresses beneficiary exports to preference-granting destinations (Hakobyan, 2020; Gnutzmann & Gnutzmann-Mkrtchyan, 2022; Tanaka, 2022; Pradhan, 2025).[1] Such a deterioration in market access induces exporters to reallocate shipments toward third-country markets—a phenomenon known as trade redirection (Bown & Crowley, 2007; Haidar, 2017). This reallocation can mitigate the adverse effects of losing preferential market access. However, redirecting exports to alternative destinations involves substantial adjustment costs that may be particularly burdensome for beneficiary developing economies with underdeveloped industrial sectors. Understanding the extent of trade redirection is therefore crucial for assessing the economic consequences of preference withdrawals. Nevertheless, there is scarce evidence on whether the revocation of tariff preferences actually induces trade redirection.

In this paper, we examine whether the European Union's (EU) partial withdrawal of tariff preferences for Cambodia induced the export redirection of affected products to non-EU destinations. Since 2001, Cambodia has enjoyed duty-free and quota-free access to the EU market under the Everything But Arms (EBA) initiative. Following growing concerns over the deterioration of democracy, political pluralism, and civil and political rights in Cambodia, the EU partially withdrew EBA preferences in August 2020. Although the measure did not prohibit Cambodian exports of affected products to the EU, these products became subject to the applicable Most-Favoured-Nation (MFN) tariff rates. For example, average MFN tariffs amounted to 12.0 percent for knitted garments, 10.9 percent for woven garments, and 6.4 percent for footwear. Consequently, this policy change from duty-free access to MFN tariff treatment worsened Cambodia's relative market-access conditions in the EU market and potentially created incentives for exporters to redirect sales toward alternative destinations.

A central question of this paper is whether Cambodia redirected exports from the EU to non-EU markets following the EU's withdrawal of EBA preferences. Because trade data do not track the reallocation of exports across destination markets, trade redirection cannot be observed directly. Instead, we infer its presence from a systematic shift in trade patterns, namely a decline in exports of affected products to the EU and a corresponding increase in exports of the same products to non-EU markets. Given evidence that Cambodia's exports of affected products to the

[1] Felbermayr et al. (2025) and Morgan et al. (2023) highlight a growing reliance on economic sanctions and trade-restrictive measures as policy instruments aimed not only at national security but also at promoting human rights, democracy, and labor standards.

EU declined significantly following the withdrawal (Tanaka, 2022), we examine whether exports of these products increased in non-EU destinations after 2020.

To identify the causal impact of the withdrawal on exports to non-EU markets, we exploit a key feature of the policy: the withdrawal was partial and applied only to selected products. Specifically, we focus on garment and footwear products, which include both affected and unaffected products. This within-industry variation allows us to implement a difference-in-differences (DiD) model that compares changes in non-EU exports of affected and unaffected products before and after the withdrawal. We estimate the model using Poisson pseudo-maximum likelihood estimation (PPML) to account for zero export values and complement the analysis with an event-study specification that traces the dynamic evolution of exports around the policy change.

The main results can be summarized as follows. First, we find little evidence that the EU's withdrawal induced trade redirection from the EU to non-EU markets. In the pooled sample of garment and footwear products, the estimated post-treatment effect is insignificant, indicating that exports of affected products did not increase in non-EU destinations after 2020. The pre-treatment coefficients are also insignificant, supporting the parallel-trends assumption. When the analysis is conducted separately by product category, the results remain insignificant for knitted and woven garments. In contrast, affected footwear products experienced a significant decline in exports to non-EU markets, with the estimated effect implying roughly a 50 percent reduction in exports relative to unaffected footwear products.

The event-study estimates reinforce the main findings. For the pooled sample, both the pre- and post-treatment coefficients are insignificant, providing support for the parallel-trends assumption and indicating no meaningful export response to the withdrawal. Similar patterns emerge for knitted and woven garments. For footwear, however, the post-treatment coefficients are consistently negative after 2020, suggesting persistently lower exports of affected products to non-EU destinations. Additionally, we find little evidence of trade redirection across destination markets. Among the five largest non-EU importers, the estimated effects are generally insignificant. For footwear products, negative effects are observed in the U.S. and U.K. markets. Given that the U.S. accounts for about 40 percent of Cambodia's non-EU footwear exports, the overall decline in affected footwear exports appears to be driven primarily by reduced exports to the U.S. market. Taken together, these results suggest that the EU's withdrawal did not induce trade redirection and may instead have weakened the competitiveness of Cambodian footwear exporters in third-country markets.

Finally, we discuss several potential explanations for the absence of trade redirection following the EU's withdrawal of tariff preferences, a finding that contrasts with the predictions

of standard trade models. First, Cambodia's garment industry is deeply embedded in buyer-driven global value chains, where production and export decisions are often coordinated by foreign lead firms rather than local factories. This organizational structure may limit the ability of Cambodian producers to redirect exports across destination markets in response to changes in market access. Second, trade redirection may be constrained by substantial fixed, sunk, and institutional costs associated with entering alternative markets. Establishing buyer relationships, complying with destination-specific regulations, and adapting to different tariff and rules-of-origin regimes can make market diversification costly. Moreover, the tariff increase resulting from the partial withdrawal of EBA preferences may not have been large enough to offset these adjustment costs. As a result, exporters may have found it more profitable to continue serving existing EU customers despite higher tariffs than to expand into unfamiliar markets.

The remainder of the paper is organized as follows. Section 2 reviews the related literature and highlights our contributions. Section 3 provides background on the EU's partial withdrawal of tariff preferences for Cambodia. Section 4 presents the empirical strategy and data. Section 5 reports the estimation results. Section 6 discusses alternative explanations for our findings. Finally, Section 7 concludes.

2. Literature Review

The literature shows that non-reciprocal trade preference schemes can promote exports from beneficiary countries. Gil-Pareja et al. (2014) find that such schemes generally increase exports in beneficiary developing countries, although their effects vary across programs. Similarly, Ito and Aoyagi (2019) show that Japan's preferential market access for least developed countries (LDCs) promotes their exports to Japan, with a pronounced impact on products with large preference margins. Persson and Wilhelmsson (2016) further find that the EU's preference schemes, particularly the GSP, increase the range of products exported by beneficiary countries. Taken together, these studies suggest that non-reciprocal trade preferences can stimulate both export growth and export diversification, although the magnitude of their effects depends on program design and country-specific circumstances.

A growing body of literature examines the consequences of the expiration or withdrawal of trade preferences. Hakobyan (2020) finds that the temporary expiration of the U.S. GSP in 2011 reduced exports of GSP-eligible products to the U.S. market, with large effects for agriculture, textiles, and apparel. Similarly, Gnutzmann and Gnutzmann-Mkrtchyan (2022) show that the EU's withdrawal of GSP preferences from Belarus led to a substantial decline in EU-bound exports of affected products. Using a computable general equilibrium model, Bandara and Naranpanawa (2015) predict that the withdrawal of the EU's GSP+ preferences would adversely

affect Sri Lanka's output, employment, and export performance. In the case of Cambodia, Tanaka (2022) shows a surge in exports immediately before the EU's partial withdrawal of EBA preferences in August 2020, followed by a significant decline in EU imports of affected products. Taken together, these studies indicate that the expiration or withdrawal of trade preferences can significantly reduce exports to preference-granting markets and generate broader adverse effects on beneficiary economies.

Another strand of the literature examines whether trade restrictions and sanctions induce exporters to redirect sales toward third-country markets. Bown and Crowley (2007) show that U.S. trade remedies affected Japanese exports not only to the U.S. market, but to third-country markets through trade deflection. Similarly, Haidar (2017) finds that sanctions against Iran led exporters to redirect non-oil exports toward non-sanctioning countries. Additionally, Kwon et al. (2024) quantify the extraterritorial effects of trade sanctions and show that their consequences extend beyond trade between sanctioning and targeted countries to affect trade flows in third countries as well. Taken together, these studies suggest that the effects of higher trade barriers should be assessed not only through their impact on direct trade with the restricted market but also through potential export redirection toward alternative destinations.

Our paper contributes to the literature on export redirection following the withdrawal of non-reciprocal trade preferences. The most closely related study is Pradhan (2025), which examines the EU's 2014 GSP reform and explores whether declines in exports to the EU were offset by trade redirection. However, that setting differs from the EU's withdrawal of EBA preferences for Cambodia because beneficiary countries were excluded from the GSP for a variety of reasons in the EU's 2014 reform, including income reclassification and the availability of alternative preferential trade agreements with the EU. Moreover, Pradhan (2025) measures export adjustment using aggregate world exports in beneficiary countries, which include exports to the EU, rather than directly examining exports to non-EU markets. For these reasons, the impact of the GSP reform on trade redirection remains inconclusive.

This paper makes three contributions to the literature. First, it extends the literature on the withdrawal of non-reciprocal trade preferences. Existing studies, including Hakobyan (2020), Gnutzmann and Gnutzmann-Mkrtchyan (2022), and Tanaka (2022), primarily examine whether exports to preference-granting markets decline following the expiration or withdrawal of trade preferences. In contrast, we investigate whether exporters respond by expanding exports to alternative destinations. By focusing on trade redirection, our analysis provides a more complete assessment of how beneficiary countries adjust to the loss of preferential market access.

Second, we provide a more credible identification of the causal effect of preference withdrawal on trade redirection. The EU's withdrawal was partial and applied only to selected

products, while similar products within the same industries retained duty-free access. Exploiting this within-industry variation, we implement a DiD method that compares export outcomes for affected and unaffected products before and after the withdrawal. Relative to previous studies of trade deflection and export redirection, such as Bown and Crowley (2007), Haidar (2017), and Pradhan (2025), this setting offers a cleaner identification strategy for isolating the impact of the policy shock.

Third, we provide new evidence on the export responses of a low-income beneficiary country to the loss of preferential market access. We find no evidence that products affected by the withdrawal experienced a significant expansion of exports to non-EU destinations. This result suggests that worsening market access in a major destination does not necessarily induce trade redirection, challenging a common prediction of standard trade models. We further discuss several potential explanations rooted in Cambodia's export structure, global value chain integration, and market-entry frictions that may help explain the absence of trade redirection.

3. Background

The EU's GSP provides developing countries with non-reciprocal preferential access to the EU market. The GSP consists of three arrangements: the Standard GSP, GSP+, and EBA. EBA is specifically designed for least developed countries (LDCs) and grants duty-free and quota-free access to the EU market for all products except arms and ammunition. Since Cambodia became an EBA beneficiary in 2001, trade between Cambodia and the EU has increased substantially over time.[2] According to the Eurostat database, EU27 imports from Cambodia increased from approximately EUR 0.25 billion in 2000 to EUR 0.73 billion in 2010 and further to approximately EUR 4.6 billion in 2019 (Tanaka, 2022). Moreover, EBA preferences were widely utilized in Cambodia's major export sectors before the partial withdrawal. In 2019, the utilization rates of duty-free access in the EU market were 95.4 percent for knitted garments (HS 61), 96.0 percent for woven garments (HS 62), and 97.5 percent for footwear products (HS 64). These high utilization rates indicate that preferential access under EBA has been extensively used in actual exports of garment and footwear.

However, preferential treatment under the EU's EBA scheme is not unconditional. The EU's

[2] A substantial growth of Cambodia's exports to the EU was partly due to the EU's reform of the Generalised Scheme of Preferences (GSP) rules of origin in 2010. Specifically, the EU relaxed the origin requirement for garment exports from a double-transformation rule to a single-transformation rule, effective from 2011. This reform made it easier for Cambodian producers relying on imported fabrics to satisfy origin requirements and qualify for duty-free access under the EBA initiative. Tanaka (2021) finds that the reform significantly increased Cambodia's garment exports to the EU. Similarly, the World Bank (2019) identifies the shift from double to single transformation under the EBA as a key institutional change.

GSP framework contains explicit conditions concerning human rights and labor rights. When serious and systematic violations of principles laid down in the relevant United Nations and International Labour Organization conventions are identified in a beneficiary country, the EU may temporarily withdraw all or part of the preferential treatment granted under the scheme. In the case of Cambodia, the European Commission initiated the temporary withdrawal procedure on February 11, 2019, following concerns over the deterioration of democracy, political pluralism, and civil and political rights, including restrictions on opposition parties, independent media, and civil society. This was followed by a period of monitoring and consultations with the Cambodian government. The Commission communicated its findings to the Cambodian government on November 12, 2019, and, after receiving comments from the government, adopted Commission Delegated Regulation (EU) 2020/550 on February 12, 2020. The partial withdrawal entered into effect on August 12, 2020.

The partial withdrawal did not prohibit Cambodia from exporting the affected products to the EU. Instead, it removed the duty-free preferential treatment previously available to those products under EBA. The affected products could therefore continue to enter the EU market, but they became subject to the applicable MFN tariff rates. For instance, the average MFN tariff rates were 12.0 percent for knitted garment, 10.9 percent for woven garment, and 6.4 percent for footwear. The increase in tariffs associated with the loss of EBA preferences therefore differed across product groups. Thus, the withdrawal changed the tariff treatment of the affected products from duty-free access under EBA to MFN tariff treatment, thereby worsening their relative market-access conditions in the EU.

4.2. Preference-withdrawn Goods

The withdrawal of EBA preferences from Cambodia was partial and applied only to a defined set of products—sugar, travel goods, selected garment products, and selected footwear products. These affected products were identified at the six-digit HS level and fall within HS 2-digit chapters 12, 42, 61, 62, and 64. Table 1 reports the full list of products for which the EU withdrew tariff preferences. For empirical analysis, we exclude HS chapters 12 and 42 because they offer limited scope for constructing valid comparisons between affected and unaffected goods within the same chapter. Thus, we focus on HS chapters 61, 62, and 64, which include both affected and unaffected products, allowing us to identify trade redirection.

---Table 1 here---

According to the Commission Delegated Regulation (EU) 2020/550, the scope of the withdrawal was determined by taking into account Cambodia's economic development needs, the need to diversify its export base, and the potential socioeconomic consequences for workers and

industries.[3] The products affected by the withdrawal accounted for approximately one-fifth of the EU's annual imports from Cambodia. Tanaka (2022, Table 1) reports that, in 2019, EU27 imports of products subject to the withdrawal amounted to approximately EUR 138 million for travel goods, EUR 452 million for knitted garment, EUR 158 million for woven garment, and EUR 196 million for footwear. In total, EU27 imports of products covered by the withdrawal amounted to approximately EUR 944 million.

4. Empirical Framework and Data

4.1. Empirical Strategy

A central question of this paper is whether Cambodia redirected exports from the EU to non-EU markets following the EU's partial withdrawal of EBA preferences in August 2020. Given evidence from Tanaka (2022) that Cambodia's exports of affected products to the EU declined significantly after the policy change, we investigate whether exports of these products increased in non-EU markets. We interpret such an increase as indirect evidence of trade redirection, defined as the reallocation of exports from the EU to alternative destinations. Since trade data do not permit the tracking of individual export flows across destination markets, trade redirection cannot be observed directly. Instead, we infer its presence by examining whether Cambodia systematically expanded exports of affected products to non-EU markets after the withdrawal of preferences.

Our hypothesis is that Cambodia increased exports of affected products to non-EU destinations following the withdrawal of EBA preferences. Once tariff-free access was removed, Cambodian exporters became subject to MFN tariffs when exporting the affected products to the EU. For example, average MFN tariff rates were 11.9% for knitted garment (HS 61), 11.0% for woven garment (HS 62), and 6.3% for footwear (HS 64) at the time of the withdrawal. To the extent that exporters could not fully pass these additional costs on to EU buyers, the profitability of serving the EU market declined relative to alternative destinations. By contrast, trade costs in non-EU markets remained largely unchanged, as they were not directly affected by the EU's withdrawal of preferences. The resulting increase in EU-specific trade costs would therefore be expected to encourage firms to reallocate exports from the EU toward non-EU markets, generating trade redirection. This prediction is consistent with the standard theory of tariff-induced trade redirection, whereby higher trade barriers in one market lead exporters to shift sales

[3] See Commission Delegated Regulation (EU) 2020/550 of 12 February 2020 amending Annexes II and IV to Regulation (EU) No 978/2012 of the European Parliament and of the Council as regards the temporary withdrawal of the arrangements referred to in Article 1(2) of Regulation (EU) No 978/2012 in respect of certain products originating in the Kingdom of Cambodia.

toward alternative destinations (Bown and Crowley, 2007).

We evaluate this hypothesis using a difference-in-differences (DiD) framework applied to Cambodia's exports to non-EU destinations, which represent potential alternative markets for exports displaced from the EU. If the withdrawal of EBA preferences induced trade redirection, exports of affected goods should increase in non-EU markets after 2020 as firms redirect shipments away from the EU. In contrast, exports of unaffected goods—those that retained EBA preferences—should exhibit no comparable change in these markets because they were not directly exposed to the EU policy shock. Given that exports of unaffected goods provide a credible counterfactual for affected goods, we can identify the causal effect of preference withdrawal on trade redirection by comparing the change in exports of affected goods to non-EU markets before and after 2020 with the corresponding change for unaffected goods. This strategy relies on the key identification assumption that, in the absence of the EBA withdrawal, affected and unaffected goods would have followed parallel export trends in non-EU markets. This assumption ensures that the export trajectory of unaffected goods represents how affected goods would have evolved in the absence of the EU policy shock. Under this condition, the DiD estimator yields a causal estimate of trade redirection induced by the EU's withdrawal.

To account for a wide range of confounding factors across goods, destination markets, and time, we estimate the DiD regression model for goods *i*, non-EU importer *j*, and year *t*:

$$E_{ijt} = exp\left(\alpha + \beta W_i \cdot Post_t + \delta W_i \cdot Trend_t + f_{ij} + f_{jt}\right) \cdot \varepsilon_{ijt} \quad (1)$$

where E_{ijt} is the export value of goods *i* from Cambodia to non-EU importer *j* in year *t*. W_i is a dummy variable that takes on unity for the goods subject to the withdrawal of duty-free access to the EU, and zero otherwise. $Post_t$ is a dummy variable that takes on unity for the period from 2020 to the end of our sample period, the year 2024. The coefficient β is of main interest and captures the causal impact of trade redirection. If Cambodia shifts the export of affected goods from the EU to the non-EU market substantially, we predict that β is positive in sign. Meanwhile, we interpret that if the coefficient is not statistically different from zero, there is no evidence of trade redirection.

We address confounding factors as follows. First, $Trend_t$ is a time trend variable, and the interaction between W_i and $Trend_t$ is included to control for a difference in general export trends between affected and unaffected goods. This term helps to reduce the bias resulting from a systematic deviation from the parallel trends assumption for affected and unaffected goods. Second, f_{ij} is time-invariant goods-country fixed effects to control for unobserved goods-country-specific determinants of Cambodian exports. f_{jt} are time-varying country-level fixed effects to control for time-varying importer characteristics such as the economic size, population, infrastructure, and multilateral resistances in non-EU importers. We cannot include time-varying

goods-level fixed effects because of perfect multicollinearity with the variable $W_i \cdot Post_t$. Finally, ε_{ijt} is an error term. We report standard errors clustered at the goods level because error terms for a given product are likely correlated across importing countries and over time after the policy shock. The number of clusters is 243 in this specification, suggesting little concern about the standard "few-cluster" problem.

We note three qualifications. First, a large number of zero values in exports suggests an econometric problem of heteroscedasticity. As the standard OLS estimator may be biased in the presence of heteroscedasticity in exports, we use Poisson pseudo-maximum likelihood (PPML) estimation. Second, we define the post-treatment period as beginning in 2020, although the EU's partial withdrawal formally took effect in August 2020 and the year 2020 contains only a partial exposure to the policy shock in our annual data. The reason is that Tanaka (2022) empirically demonstrates a pronounced surge in last-minute exports of affected products to the EU before tariffs were reinstated in August 2020. This pattern indicates that exporters responded to the policy change well before its official implementation date—an announcement effect. For this reason, we treat 2020 as the effective year in which the withdrawal influenced trade flows. Third, an alternative approach is to estimate a triple-differences specification that exploits variation across affected and unaffected products, before and after the EU's withdrawal, and between EU and non-EU destinations. However, because the EU's withdrawal directly reduces exports to the EU, the triple-differences estimator would capture both the decline in exports to the EU and any increase in exports to non-EU markets—the estimated effect of both export contraction and trade redirection. Consequently, the triple-differences specification does not cleanly identify trade redirection induced by the policy shock.

While equation (1) provides a baseline DiD estimate of the average causal effect of trade redirection, it has several limitations. First, trade redirection is likely to evolve over time, as supply-chain adjustments and buyer reallocation can generate a gradual increase in exports to non-EU markets following an immediate decline in EU-bound exports. A simple DiD model cannot identify these dynamic treatment effects because it collapses all post-treatment years into a single average effect. Second, the simple DiD framework assumes the parallel-trends assumption, making it difficult to check whether affected and unaffected goods followed similar export trends in the pre-treatment period. This also suggests that potential anticipatory effects long before the EU's withdrawal in August 2020 cannot be detected or separated from the post-treatment dynamics.

To capture the full dynamic path of the policy impacts, we also estimate an event-time specification that traces the evolution of Cambodian exports to non-EU markets for goods *i*, non-EU importer *j*, and year *t*:

$$E_{ijt} = \exp\left(\alpha + \sum_{k \neq -1} \beta_k W_i \cdot \mathbf{1}(t = 2020 + k) + f_{ij} + f_{jt}\right) \cdot \varepsilon_{ijt} \quad (2)$$

where the base period is defined for the year 2019. The coefficient β_k shows an event-time change in the export of affected goods to the non-EU markets for *k* periods before or after 2019. The coefficients β_k for $k < 0$ can capture a pre-policy trend in Cambodian exports of affected goods to the non-EU market. The coefficients β_k for $k > 0$ show a post-policy trend in Cambodian exports of affected goods to the non-EU market. These post-policy coefficients capture dynamics in trade redirection following the EU's withdrawal of tariff preferences.

4.2. Data Description

We use trade data from the UN Comtrade database, using export statistics reported by Cambodia. Goods are defined at the 6-digit level in the HS 2017 classification. After excluding goods and destinations with zero total trade over 2017-2024, we construct a balanced panel at the goods-country level.

Figure 1 shows Cambodia's exports of affected and unaffected goods to non-EU markets for knitted garments (HS 61), woven garments (HS 62), and footwear (HS 64) from 2017 to 2024. Export values are reported in billions of USD. The hollow circle denotes exports of affected goods, while the cross marker denotes exports of unaffected goods. Following the EU's withdrawal in 2020, exports of affected products show no pronounced shift for knitted garments but a modest upward trend for woven garments and footwear. Exports of affected footwear products increased in absolute terms, but their growth was significantly weaker than that of unaffected footwear products. Although affected goods tend to exhibit lower export growth than unaffected goods, these patterns motivate a formal empirical assessment of trade redirection resulting from the EU's withdrawal.

---Figure 1 here---

Table 2 presents the summary statistics of the sample used in estimation, with statistics separately reported for unaffected and affected goods. Export values are measured in millions of USD. The mean of export values for the unaffected goods is 0.71 million USD, while that for affected goods is 1.05 million USD. Each sample has a large number of zero values, making it important to account for zero values in estimation.

---Table 2 here---

5. Estimation Results

5.1. Main Results

Table 3 shows the PPML regression results, with the result in column (1) for the full sample

covering HS chapters 61, 62, and 64. In the aggregate specification, the coefficient of the variable $W_i \cdot Post_t$ is negative and insignificant, suggesting no significant change in exports of affected goods to non-EU markets following the EU's withdrawal of tariff preferences. Meanwhile, the coefficient of the variable $W_i \cdot Trend_t$ is negative and insignificant, suggesting no systematic difference in pre-existing export trends between affected and unaffected goods. This finding supports the parallel-trends assumption required for causal identification. Under this condition, the estimated coefficient of $W_i \cdot Post_t$ can be interpreted as the causal impact of the EU's withdrawal on Cambodia's trade redirection.

---Table 3 here---

Columns (2)-(4) in Table 3 report the results estimated separately for each chapter. For knitted and woven garments in columns (2) and (3), the coefficient of $W_i \cdot Post_t$ is negative and insignificant. The coefficient of $W_i \cdot Trend_t$ is not significant in these results, consistent with the parallel-trends assumption within each garment category. By contrast, column (4) for footwear shows that the coefficient of $W_i \cdot Post_t$ is negative and significant, while the coefficient of $W_i \cdot Trend_t$ is not significant. The magnitude of the post-2020 coefficient implies a 50% reduction in exports of affected footwear to alternative markets.[4] Taken together, these results suggest that exports of affected garments did not experience a statistically meaningful decline after 2020, while affected footwear products exhibited a marked decline in exports.

To trace the full dynamic impact of the EU's withdrawal, Figure 2 presents the event-time estimates using 2019 as the reference year. The corresponding regression results are reported in Table A1. The dots represent annual treatment effects relative to 2019, and the dashed lines denote 95% confidence intervals. For the pooled sample of garment and footwear products, the pre-treatment coefficients for 2017 and 2018 are small in magnitude and statistically insignificant, providing support for the parallel-trends assumption. Following the EU's withdrawal, the post-treatment coefficients remain close to zero and are insignificant, as the confidence intervals consistently include zero. These results suggest that the policy had no discernible dynamic effect on exports of affected goods to non-EU markets.

We corroborate these findings by estimating event-study specifications separately for each HS chapter. For both knitted and woven garments, both pre- and post-treatment coefficients are statistically insignificant, indicating that the EU's withdrawal of tariff preferences did not induce meaningful adjustments in exports of affected products to non-EU markets. For footwear, the pre-treatment coefficients are insignificant, consistent with the parallel-trends assumption. Although the post-treatment coefficients are negative throughout the post-2020 period and statistically

[4] The marginal effect is computed by $100[\exp(-0.69) - 1]$.

significant in 2020, they are not significant in subsequent years. This pattern suggests that the negative and significant average treatment effect reported in column (4) of Table 3 is unlikely to be driven by an unusually large export decline in a single year. Instead, it appears to reflect persistently lower exports of affected footwear products to non-EU markets following the EU's withdrawal in 2020. Taken together, these results provide no evidence that affected products experienced a significant increase in exports to non-EU destinations after 2020, supporting the absence of trade redirection.

---Figure 2 here---

5.2. Importer Heterogeneity

The results up to this point have examined the average effect of the EU's withdrawal on Cambodia's exports to non-EU markets. However, this average effect may mask heterogeneity across destination markets in the extent of trade redirection. To explore such heterogeneity, we estimate the DiD regression model in equation (1) separately for non-EU importer. For instance, one specification examines exports of goods from Cambodia to the U.S. market. Because each regression is estimated separately for a single destination market, there is no cross-importer variation within the sample. Accordingly, the specification includes only goods- and year-fixed effects. The coefficient of interest captures the differential post-2020 change in exports of affected goods relative to unaffected goods within a given destination market and is therefore interpreted as a measure of destination-specific trade redirection.

---Table 4 here---

Table 4 presents the PPML estimates for the five largest importers of Cambodian exports, ranked by aggregate import values over the sample period. The coefficient of the variable $W_i \cdot Post_t$ is statistically insignificant for the U.S., Japan, Canada, and China, while it is negative and significant for the U.K. Although the coefficient for China is positive, it is not statistically significant and therefore does not support a meaningful expansion of exports of affected goods. These results present little evidence that exports of affected products increased systematically in the major non-EU destination markets following the EU's withdrawal. Thus, the findings suggest that the limited evidence of trade redirection reported above is unlikely to be driven by heterogeneity across the major non-EU destinations considered here.

5.3. Footwear Products

The results thus far indicate a significant decline in exports of affected footwear products to non-EU markets following the EU's withdrawal of tariff preferences. An important question is whether this decline is driven by changes in exports to particular destination markets. To this end,

we estimate the DiD model in equation (1) separately for each non-EU importer using only footwear products. The set of destination markets is identical to that examined in Section 5.2, as these countries are also major importers of Cambodian footwear products.

Table 5 reports the estimation results. We find that the coefficient of the variable $W_i \cdot Post_t$ is negative and significant for the U.S. and the U.K., whereas the corresponding estimates are insignificant for Japan, Canada, and China. The U.S. market is by far the largest non-EU market for Cambodian footwear products, accounting for approximately 40% of Cambodia's footwear exports to non-EU destinations during the sample period. This finding suggests that the overall decline in exports of affected footwear products to non-EU markets is driven primarily by reduced exports to the U.S. market.[5]

To shed light on this finding, one plausible explanation is that the EU served as the key export market for these goods. The loss of duty-free access may have reduced the scale of production among Cambodian footwear exporters, weakening their competitiveness not only in the EU but also in third-country markets such as the U.S. Lower output volumes can increase average production costs by spreading fixed costs over fewer units, while heightened uncertainty may further constrain firms' export activities. As a result, Cambodian producers may have been unable to expand sales in alternative destinations following the loss of EU preferences. Rather than reallocating exports, they may have experienced a measurable erosion of their pre-existing competitive position in non-EU markets. These findings suggest that the partial withdrawal of EBA preferences could generate negative spillover effects beyond the EU market itself, contributing to a decline in Cambodia's footwear exports across global destinations.

It should be noted that this mechanism cannot be directly verified using conventional trade statistics. Identifying whether the loss of EU market access reduced firms' export capacity across all destinations would require exporter-level transaction data. Such data would allow us to examine whether Cambodian footwear exporters with substantial exposure to the EU market subsequently experienced declines in exports to alternative destinations such as the U.S.

6. Discussion

The findings thus far indicate that the EU's withdrawal of tariff preferences did not induce trade redirection. This result contrasts with the predictions of standard gravity-based trade models, which suggest that a deterioration in market access to one destination should encourage exporters to reallocate sales toward alternative markets (Bown & Crowley, 2007; Haidar, 2017). However,

[5] Figure A1 shows Cambodia's footwear exports to the U.S. Exports of both affected and unaffected goods increased substantially after 2020, suggesting a positive demand growth for Cambodian footwear. However, the export growth was stronger among unaffected goods.

no such reallocation is evident in the Cambodian case. Instead, affected products generally failed to increase exports to non-EU destinations following the withdrawal of preferences. This section explores several potential explanations for why Cambodia's export response diverges from this conventional prediction. It should be noted that the following explanations are complementary hypotheses for future research, rather than as mechanisms established by the present analysis.

First, the organization of global value chains (GVCs) may constrain the ability of local producers to reallocate exports across destination markets. The garment industry is a prototypical buyer-driven value chain in which retailers, marketers, and branded manufacturers act as lead firms and organize extensive global sourcing networks (Gereffi, 1999; Gereffi and Memedovic, 2003). This structure is particularly relevant in Cambodia. The World Bank (2017) reports that almost 95 percent of Cambodian garment factories were wholly foreign-owned and that the vast majority were integrated into triangular manufacturing networks in which global buyers in the EU and the U.S. sourced from multinational producers headquartered elsewhere in Asia. Production, export, and management decisions for factories in Cambodia were largely made at those headquarters. These organizational characteristics suggest that Cambodian production plants may have limited autonomy to reallocate production across destination markets when market-access conditions change. To empirically investigate this explanation, more detailed data on production networks linking lead firms and local manufacturers would be required.

Second, fixed and sunk costs associated with entering and operating in export markets may limit the scope for trade redirection. Using firm-level data from Iran, Haidar (2017) finds that exporters were better able to redirect exports toward non-sanctioning markets in which they had already established a presence, highlighting the importance of prior market relationships and export-market entry costs. The study further shows that firms reduced prices and expanded quantities when entering new destinations, suggesting that export reallocation involves substantial adjustment costs. In addition, differences in tariff schedules, preferential trade arrangements, and rules-of-origin requirements across destination markets may create further institutional barriers to export redirection.

Although our data do not permit an examination of firms' destination-specific export histories, market-entry costs, or the role of destination-specific trade policies, these findings suggest that trade redirection may be constrained when alternative markets require substantial investments and impose adjustment costs on exporters. If Cambodian garment exporters were primarily oriented toward a limited number of EU destinations, expanding sales to entirely new non-EU markets could have been considerably more difficult than continuing to serve familiar markets. Such market-entry and institutional frictions may help explain the absence of trade redirection following the EU's withdrawal of tariff preferences.

Finally, the magnitude of the tariff shock itself may have influenced exporters' incentives to redirect trade. The partial withdrawal of EBA preferences increased tariffs on affected products from zero to the EU's MFN rates, but the resulting increase in trade costs may not have been sufficiently large to trigger substantial export reallocation. As the preceding discussion suggests, redirecting exports from established EU markets to alternative destinations may involve considerable fixed, sunk, and institutional costs. Faced with these barriers, exporters may have found it more profitable to continue serving their existing EU customers while absorbing the additional tariff burden. Under this scenario, affected products would continue to enter the EU market despite the deterioration in market access and the relative attractiveness of alternative destinations. However, this explanation cannot be directly examined using product-level trade data. Assessing whether exporters continued to serve the same EU markets after the withdrawal of preferences would require firm-level transaction data over time. Such data shed light on the question of whether firms remain in established EU markets despite facing higher MFN tariffs.

7. Conclusion

While trade preferences are known to promote exports in beneficiary countries, whether the loss of such access redirects exports to third-country destinations remains understudied. This paper examines trade redirection using the EU's partial withdrawal of EBA preferences for Cambodia in August 2020, which reinstated tariffs on specific sugar, travel, garment, and footwear products. Utilizing Cambodia's export data from 2017 to 2024, we employ a DiD approach combined with event-study specifications, exploiting the variation within garment and footwear categories where only certain products lost preference. We find no evidence that exports of affected garments increased in non-EU markets following the EU's withdrawal, providing no evidence of trade redirection. By contrast, we find that exports of affected footwear declined by approximately 50%. Overall, Cambodia's response to the loss of EU preferences reflects export contraction rather than redirection.

Our findings yield policy implications for preference-granting and beneficiary economies. From the perspective of the preference-granting countries such as the EU, the absence of trade redirection suggests that targeted tariff withdrawals are economically binding. Because local exporters cannot easily substitute European buyers with alternative markets, the policy successfully imposes direct economic costs. However, policymakers using trade preferences as leverage for political or human rights objectives must carefully evaluate where this burden falls. The economic damage is largely absorbed by the domestic manufacturing sector—often impacting vulnerable populations such as female factory workers—rather than the political elite. Therefore, employing the withdrawal of tariff preferences as a governance instrument requires

weighing whether the resulting economic pressure effectively drives institutional reforms without causing undue harm to the local workforce.

From the perspective of preference beneficiaries, the findings highlight the severe risks of export concentration in a limited number of preferential markets. When access is revoked, domestic industries cannot easily offset their losses through alternative buyers. To mitigate these risks, developing economies must proactively diversify their export destinations long before preferential status is threatened. Domestic policymakers should prioritize structural reforms that lower general production and logistics costs, allowing firms to compete internationally under standard MFN regimes. Concurrently, it is essential to assist workers in heavily exposed sectors from shifts in international trade policy.

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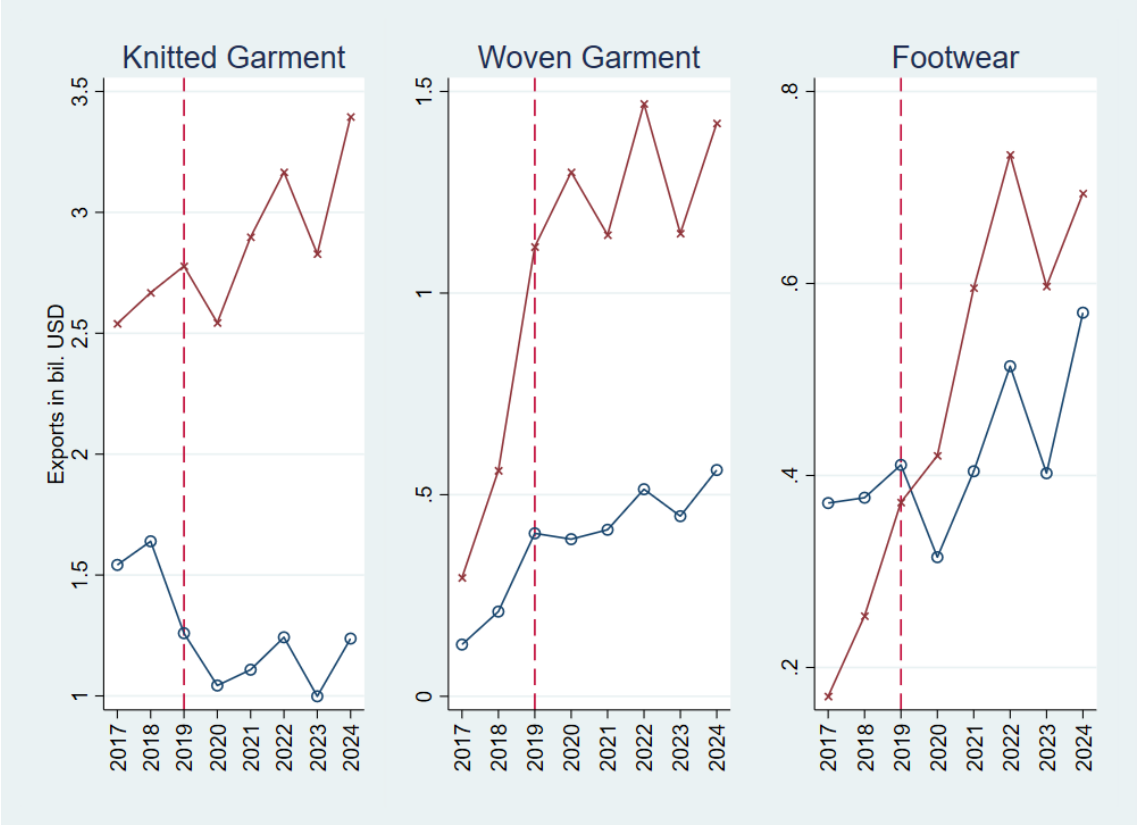
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Figure 1. Cambodia's Exports to the non-EU Markets



Notes: Exports are reported in billions of USD. The hollow circle marks the exports of affected goods by the EU's withdrawal of tariff preferences, while the cross marker denotes the exports of unaffected goods. Knitted garments, woven garments, and footwear correspond to HS Chapters 61, 62, and 64, respectively.

Source. Authors' calculations using the UN Comtrade.

Figure 2. Event-Study Plot of Trade Redirection Effects



Notes: Event study plots show the estimated coefficients β_k from the PPML result of the empirical model: $E_{ijt} = \exp\left(\alpha + \sum_{k \neq -1} \beta_k W_i \cdot \mathbf{1}(t = 2020 + k) + f_{ij} + f_{jt}\right) \cdot \varepsilon_{ijt}$; E_{ijt} is the value of exports from Cambodia to the non-EU markets. 95% confidence interval is shown for each coefficient. Knitted garments, woven garments, and footwear correspond to HS Chapters 61, 62, and 64, respectively.

Source: Authors' calculation using the UN Comtrade database.

Table 1. 6-digit Codes of Preference-withdrawn Products

HS Chapter 12	HS Chapter 61	HS Chapter 62	HS Chapter 64
121293	610341	620341	640319
	610343	620343	640320
HS Chapter 42	610349	620349	640340
420100	610510	620520	640351
420211	610520	620530	640359
420212	610590	620590	640391
420219	610711	620711	640399
420221	610712	620719	640510
420222	610719	620721	640520
420229	610721	620722	640590
420231	610722	620729	640610
420232	610729	620791	640620
420239	610791	620799	640690
420291	610799	621132	
420292	610910	621133	
420299	610990	621139	
420310	611510	621142	
420321	611521	621143	
420329	611522	621149	
420330	611529	621210	
420340	611595	621220	
420500	611596	621230	
420600	611599	621290	

Source: Commission Delegated Regulation (EU) 2020/550 of 12 February 2020 amending Annexes II and IV to Regulation (EU) No 978/2012 of the European Parliament and of the Council as regards the temporary withdrawal of the arrangements referred to in Article 1(2) of Regulation (EU) No 978/2012 in respect of certain products originating in the Kingdom of Cambodia.

Table 2. Summary Statistics of Sample Exports

	N	Mean	SD	Min	Max
Unaffected goods	49,345	0.71	6.69	0	469
Affected goods	15,768	1.05	7.10	0	260
Total	65,113	0.79	6.79	0	469

Note: Exports are reported in millions of USD.

Source: Authors' calculations using the UN Comtrade

Table 3. PPML Estimation Results

Dependent: value of Cambodia's exports to non-EU markets

Sample	(1) Garment & Footwear	(2) Knitted Garment	(3) Woven Garment	(4) Footwear
HS	61, 62, 64	61	62	64
$Withdrawal_i \times Post_t$	-0.26	-0.15	-0.20	-0.69**
	(0.18)	(0.25)	(0.21)	(0.28)
$Withdrawal_i \times Trend_t$	-0.022	-0.056	0.057	-0.010
	(0.050)	(0.056)	(0.062)	(0.12)
Goods-importer fixed effect	Yes	Yes	Yes	Yes
Importer-year fixed effect	Yes	Yes	Yes	Yes
No. of obs.	65,113	32,364	24,148	7,051
Pseudo R-squared	0.92	0.92	0.94	0.91

Notes: The results show the Poisson pseudo maximum likelihood estimation for exports from Cambodia to the non-EU markets. Parentheses show standard errors clustered by goods. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Source. Authors' calculations using the UN Comtrade.

Table 4. PPML Estimation Results by Importer

Dependent: value of Cambodia's exports to non-EU markets

	(1)	(2)	(3)	(4)	(5)
Importer	USA	Japan	U.K.	Canada	China
$Withdrawal_i \times Post_t$	-0.26	-0.29	-0.45**	-0.060	0.34
	(0.22)	(0.19)	(0.18)	(0.21)	(0.28)
$Withdrawal_i \times Trend_t$	-0.024	0.025	0.0023	-0.055	-0.12**
	(0.063)	(0.038)	(0.063)	(0.057)	(0.058)
Goods fixed effect	Yes	Yes	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes	Yes	Yes
No. of obs.	1,944	1,912	1,856	1,888	1,840
Pseudo R-squared	0.86	0.85	0.81	0.83	0.85

Notes: The results show the Poisson pseudo maximum likelihood estimation for exports from Cambodia to individual importers. The sample includes knitted garments (HS 61), woven garments (HS 62), and footwear (HS 64). Parentheses show standard errors clustered by goods. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Source. Authors' calculations using the UN Comtrade.

Table 5. PPML Estimation Results by Importer for Footwear Products

Dependent: value of Cambodia's exports to non-EU markets

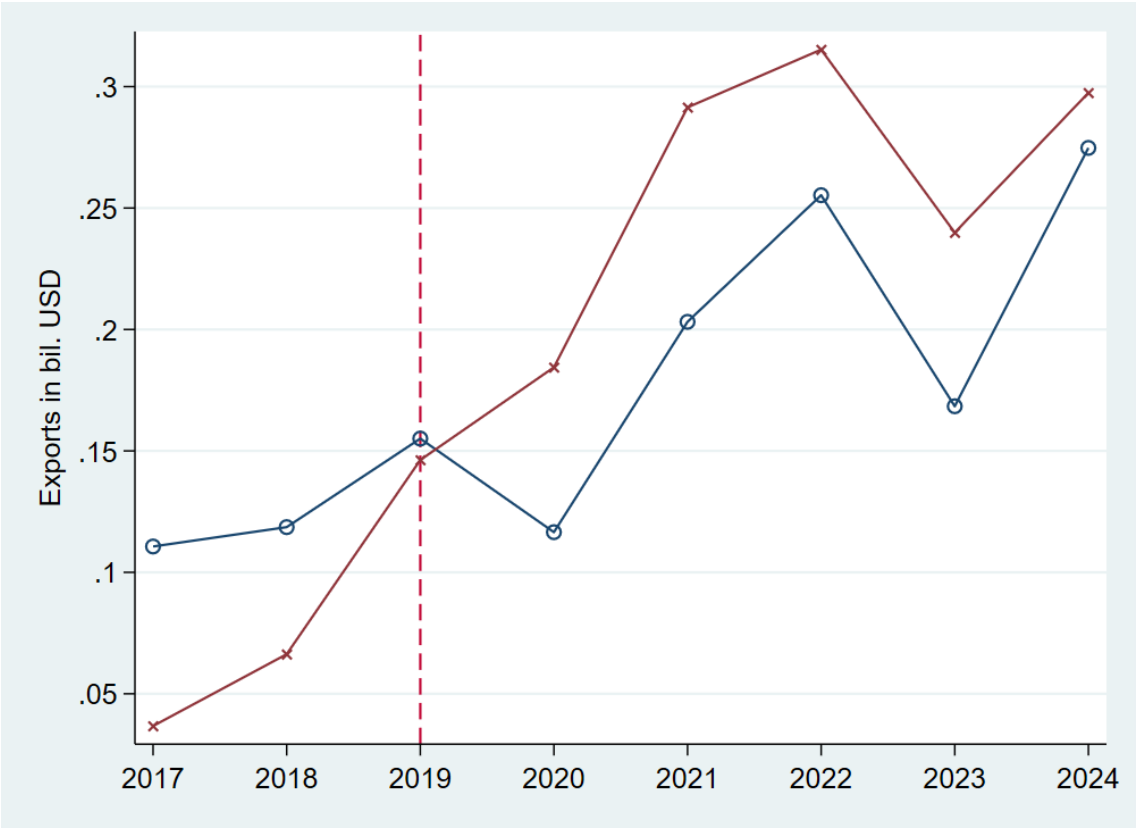
	(1)	(2)	(3)	(4)	(5)
Importer	USA	Japan	U.K.	Canada	China
$Withdrawal_i \times Post_t$	-0.82***	-0.83	-0.70*	-0.59	0.039
	(0.27)	(0.57)	(0.40)	(0.48)	(0.18)
$Withdrawal_i \times Trend_t$	0.030	-0.071	-0.021	-0.050	-0.093
	(0.14)	(0.10)	(0.16)	(0.088)	(0.16)
Goods fixed effect	Yes	Yes	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes	Yes	Yes
No. of obs.	200	192	192	200	184
Pseudo R-squared	0.84	0.85	0.79	0.82	0.85

Notes: The results show the Poisson pseudo maximum likelihood estimation for exports from Cambodia to individual importers. Parentheses show standard errors clustered by goods. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Source. Authors' calculations using the UN Comtrade.

Appendix

Figure A1. Footwear Exports to the U.S. from Cambodia



Notes: Exports are reported in billions of USD. The hollow circle marks the exports of affected goods by the EU's withdrawal of tariff preferences, while the cross marker denotes the exports of unaffected goods.

Source. Authors' calculations using the UN Comtrade.

Table A1. PPML Estimation Results of Event-time Estimates

Dependent: value of Cambodia's exports to non-EU markets

Sample	(1) Garment & Footwear	(2) Knitted Garment	(3) Woven Garment	(4) Footwear
HS	61, 62, 64	61	62	64
$Withdrawal_i$×Year 2017	0.34	0.30	0.14	0.75
	(0.29)	(0.30)	(0.28)	(0.76)
$Withdrawal_i$×Year 2018	0.28	0.30	0.0076	0.33
	(0.22)	(0.25)	(0.20)	(0.57)
$Withdrawal_i$×Year 2020	-0.17	-0.091	-0.17	-0.41*
	(0.13)	(0.18)	(0.22)	(0.24)
$Withdrawal_i$×Year 2021	-0.14	-0.15	0.041	-0.52
	(0.16)	(0.23)	(0.18)	(0.33)
$Withdrawal_i$×Year 2022	-0.13	-0.13	0.028	-0.47
	(0.20)	(0.28)	(0.27)	(0.39)
$Withdrawal_i$×Year 2023	-0.19	-0.26	0.12	-0.49
	(0.21)	(0.27)	(0.27)	(0.49)
$Withdrawal_i$×Year 2024	-0.12	-0.22	0.14	-0.29
	(0.22)	(0.28)	(0.28)	(0.55)
Goods-importer fixed effect	Yes	Yes	Yes	Yes
Importer-year fixed effect	Yes	Yes	Yes	Yes
No. of obs.	65,113	32,364	24,148	7,051
Pseudo R-squared	0.92	0.92	0.94	0.92

Notes: The results show the Poisson pseudo maximum likelihood estimation for exports from Cambodia to the non-EU markets. Parentheses show standard errors clustered by the goods. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Source. Authors' calculations using the UN Comtrade.