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EU/ACP Economic Partnership Agreements: Impact, Options and Prerequisites

The EU and the African, Caribbean and Pacific countries (ACP) are presently renegotiating their trade relations. Behind these negotiations are the fundamental conflict between the existing arrangement and multilateral trade rules, the frustration regarding poor ACP trade performance, the ineffectiveness of trade and trade-related ACP policies, and the inefficiency of corresponding EU assistance. This article highlights the fundamentals of the envisaged Economic Partnership Agreements (EPAs) between the EU and the ACP countries, sums up previous estimates of their probable economic impact, discusses policy options for ACP countries and sheds light on basic prerequisites, particularly on institutional conditions, that should be fulfilled to ensure the success of EPAs.

Non-reciprocal trade preferences, which the EU has been granting to ACP countries for decades, have turned out to be WTO-incompatible.[1] The trade preferences discriminate against developing countries outside the ACP group, in particular against least developed countries (LDCs), and are therefore in conflict with GATT Part IV. Furthermore, these trade preferences cannot be conceived as free trade agreements due to the lack of reciprocity. Therefore, they do not meet the conditions of GATT article XXIV for regional trade agreements. In 1994, the GATT granted a waiver to the EU, which was valid until 2000. Since the EU and the ACP group could not establish a new WTO-compatible trade agreement during the Cotonou negotiations, another waiver was requested and granted by the WTO until the end of 2007.[2] In the Cotonou Agreement, both parties agreed to conclude reciprocal free trade agreements as part of a comprehensive package of trade-related measures and EU assistance (Economic Partnership Agreements – EPAs).[3] The new agreements are scheduled to enter into force on 1 January 2008. For those ACP countries that may not feel in the position to enter into an EPA, an alternative framework for trade has to be provided which is equivalent to their existing situation and in conformity with WTO rules.

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However, the objectives of the EPAs go beyond EU-ACP trade relations. They are geared toward enhancing the intra-regional trade of ACP countries and their integration into the world economy in general. As a matter of fact, ACP countries have not had great success at significantly enlarging trade amongst themselves. However regional groupings have mushroomed, resulting in a puzzling web of overlapping, contradictory and ineffective agreements. Their intra-regional trade within the various integration schemes remains small and hardly shows significant growth. Moreover, ACP countries have also failed to keep pace with world trade dynamics. As a group, their share in world exports fell from 3.21% in 1970 to 1.3% in 2003 (see Table 1). This record mainly reflects the trade dilemma of the LDCs, which account for 39 of the 79 ACP countries. ACP countries could not even retain their position in the EU market, which deteriorated from 4.1% in 1970 to 1.0% in 2003. This fact is particularly striking, as the EU has been trying to facilitate easy market access for decades by granting unilateral

[1] Bonapas Onguglo, Taisuke Ito: How to Make EPAs WTO Compatible? Reforming the Rules on Regional Trade Agreements, ECDPM Discussion Paper No. 40, Maastricht 2003.

[2] WTO: European Communities – The ACP-EC Partnership Agreement, Decision of 14 November 2001, Geneva 2001(G/C/W/269).

[3] ACP/EC: The Cotonou Agreement, 2001, Internet Posting: http://europa.eu.int/comm/development/body/cotonou/agreement_en.htm.

Table 1
Economic Links between the EU and the ACP Countries
1970 - 2003

	1970	1980	1990	2000	2003
Share of ACP countries in world exports	4.4	3.2	2.1	1.6	1.8
Share of regional ACP groupings' exports to the EU (25) in % of group's total exports					
ACP countries	48.3	32.1	36.3	30.7	31.4
LDCs among ACP countries	60.1	58.6	44.4	34.2	30.2
West Africa (ECOWAS+Mauritania)	67.8	60.3	43.8	31.4	34.2
Central Africa (CEMAC+STP*)	70.7	54.1	55.0	32.9	30.1
East South Africa (ESA)	54.3	57.6	51.8	37.9	37.3
Southern Africa (SADC)	57.9	46.0	35.6	20.9	20.1
Caribbean (CARIFORUM)	21.7	19.9	24.6	16.9	16.6
Pacific	33.8	34.1	23.3	11.1	10.3
Share of regional ACP groupings' imports from the EU (25) in % of group's total imports					
ACP countries	50.4	39.2	41.6	32.3	34.2
LDCs among ACP countries	56.0	47.3	46.0	34.2	32.7
West Africa (ECOWAS+Mauritania)	61.8	54.3	49.2	41.6	39.9
Central Africa (CEMAC+STP*)	74.1	70.2	67.0	55.3	50.9
East South Africa (ESA)	51.1	43.3	42.4	27.0	26.6
Southern Africa (SADC)	57.3	51.3	60.1	32.5	37.2
Caribbean (CARIFORUM)	28.4	15.4	16.8	14.0	17.5
Pacific	13.4	9.0	8.0	3.4	3.1
EU (25) exports to the ACP countries in % of total EU (25) exports	5.0	4.3	1.9	1.4	1.4
EU (25) imports from the ACP countries in % of total EU (25) imports	5.1	4.5	2.2	1.5	1.5
Net Official Development Assistance to ACP countries from the EU (25) in % of total ODA	44.4	40.9	43.9	39.6	44.3
ACP Foreign Direct Investment inflows from the EU (25) in % of total FDI inflows	..	47.7	40.0	75.1	42.8

* STP = São Tomé and Principe

Sources: UNCTAD: Handbook of Statistics 2003, CD-ROM; DATASTREAM online; OECD: DAC online Database on Annual Aggregates.

trade preferences under significantly more favourable conditions than those offered to non-ACP countries under the EU System of Generalised Preferences. ACP countries have frequently argued that their weak export performance has much to do with the erosion of EU trade preferences, due to general tariff liberalisation under multilateral agreements. In fact, preferential margins have been gradually reduced for all developing countries, but this did not prevent other countries from performing much better on world and EU markets. The real reasons behind the dismal performance are supply-side constraints. It can hardly be denied that most ACP countries lack the productive and technological capacities, marketing skills, transportation channels, and appropriate technical and sanitary regulations that are required to exploit the opportunities on EU and world markets. Moreover, trade-related ACP policies and the assistance the EU provided under the various cooperation agreements with the ACP group turned out to be insufficient to cope successfully with these problems.

The EPAs are a more serious new attempt to jointly address these fundamental problems. Progress in these areas should first and foremost pave the way for enhanced intra-regional integration, a core objective of the EPAs. ACP groupings would need to start with a comprehensive elimination of intra-regional trade barriers. Simultaneously, the access of ACP countries to EU markets would need to be improved beyond the level of previous unilateral EU trade preferences. This includes a further reduction of the remaining EU tariffs (especially in the agriculture sector) and of other critical barriers and constraints for increased African exports into EU markets, such as rules of origin, technical standards, quotas and subsidies, export procedures etc. At a later stage, ACP countries would have to gradually dismantle their own tariff and non-tariff barriers on imports originating in the EU. In addition to the tariff liberalisation for trade in goods, EPAs are also envisaged to include the mutual liberalisation of trade in services, a regulatory agenda to promote investment and competition, and institutional provisions to facilitate trade as well as related technical and financial assistance for trade and development.

In order for them to be able to cope with the challenges of such an ambitious liberalisation programme, it is agreed that ACP countries should be given a sufficiently long transitional period, an appropriate product coverage (taking into account sensitive sectors) and asymmetry in the timetables for reducing trade barriers in ACP countries and in the EU.

Since October 2003, inter-regional negotiations between the EU and six regional ACP sub-groups[4] have been under way, and are aimed at drafting more detailed agreements. A joint roadmap has been developed for each ACP sub-group comprising a schedule, an institutional set-up, an agenda of the coverage, and priority areas for negotiation. However, negotiations with the EU are hampered by the fact that these EPA groupings do not coincide with existing regional integration schemes. Instead, they imply an alternative delineation between countries that are currently members of overlapping regional groupings. Creating EPAs for these two entities would require the intra-regional reshuffling of existing regional groupings.

Given the strong economic links to the EU (see Table 1), EPAs could have a significant bearing on the ACP countries' trade relations with the EU. Moreover, they could significantly affect the intra-regional integration process and could induce sizeable structural adjustment pressures on ACP economies.

Effects of EPAs on ACP Countries

According to the theory of economic integration, an EPA should have a number of economic effects. Above all, a preferential trade arrangement involves two basic trade effects, one in which trade between partner countries expands in accordance with international comparative advantage, and the other in which trade between countries expands as a result of the preferential treatment given to imports from within the region as compared to those from the rest of the world. Viner[5] identified the former effect as "trade creation", where domestic products are substituted by imports of lower-cost goods produced by a country's partner, and the latter as "trade diversion", which stands for the shift in imports from the least-cost exporter to the more expensive product from the partner nation. In the case of ACP imports, this would translate into a substitution of non-preferred products from, for instance, the United States or Japan, by preferred EU imports.

While this categorisation is a helpful description of the effects of the formation of a Free Trade Agreement (FTA), it depicts only part of the economic effects of such an arrangement. Further likely effects are, for example, losses in tariff revenues due to the preferential tariff elimination, economies of scale due to an enhanced economic market, terms of trade effects due to changes in relative export and import prices as well as dynamic effects, such as gains from increased competition, capital inflows and the transfer of external technology. A country that enters an EPA may experience a welfare gain or loss, depending on the country's unique situation. As a consequence, the impact of the EPAs on individual ACP countries has to be analysed empirically.

So far, only a few studies have examined the likely impact the EPAs could have on various economic and financial indicators. In the case of West Africa, Busse et al.[6] assess the impact on trade flows and government revenue for the 14 Economic Community of West African States (ECOWAS) countries, using a partial equilibrium model. Their results indicate that, on average, only moderate trade effects can be expected. Yet the decline in import duties due to the preferential tariff elimination might be of some concern. For instance, the estimated losses in customs revenue for both Cape Verde and Gambia amount to some 20 per cent of total government revenues. The estimated budget losses in other West African countries are smaller, but most of them are likely to observe a decline in overall government revenues in the range of 5 to 10 per cent. These are relatively large numbers that may affect the ability of West African ACP countries to provide much needed public goods, such as education or infrastructure.

[4] ECOWAS plus Mauretania, CEMAC, ESA, SADC, CARIFORUM and a pacific group of ACP countries. European Commission: Regional Negotiations of Economic Partnership Agreements, 2005, Internet Posting: http://europa.eu.int/comm/trade/issues/bilateral/regions/acp/regneg_en.htm

[5] Jacob Viner: The Customs Union Issue, New York 1950, Carnegie Endowment for International Peace.

[6] Matthias Busse, Axel Borrmann, Harald Grossmann: The Impact of the ACP/EU Economic Partnership Agreements on ECOWAS Countries: An Empirical Analysis of the Trade and Budget Effects, Hamburg 2004, HWWA.

Busse et al. point out that the estimated trade effects occur only if European exporters lower their export prices in line with the tariff elimination. Yet if EU exporters “price to market”, i.e. leave market prices unchanged and increase their profits despite the elimination of tariffs, the importing country will lose import duties without gaining the advantage of lower import prices. From the importing ACP country’s point of view, economic welfare would thus definitely decrease. In general, this outcome is more likely to occur in less competitive markets.

Other studies, for example those by Bussolo[7] and McKay et al.,[8] which analyse the welfare impact of the EPAs on the South African Development Community (SADC) and Tanzania/Uganda respectively, support these results. The authors point out that regional EPAs with the EU may lead to a decline in welfare levels, as the losses in tariff revenues exceed any gains from trade through lower import prices, and that a unilateral trade liberalisation by African ACP countries would be better by far for real GDP growth rates. This is the result of the discriminatory nature of tariff liberalisation under an EPA that benefits EU firms more than a unilateral approach would.

According to a study by Borrmann, Grossmann and Koopmann,[9] the effects of EPAs on trade flows and tax revenues between and within ACP countries could vary quite considerably. The trade effects on the Caribbean and Pacific ACP states could, for example, be easily negated, as could, bar a few exceptions, the loss of customs revenues. The African ACP countries however, would be subject to a significant increase in EU imports and, in many cases, a substantial reduction in customs revenues. This can mainly be attributed to the fact that the EU is already their most significant trading partner.

Policy Options and Prerequisites for the EPAs

The significant trade and budget effects that are likely to be the result of EPAs in a number of ACP countries would expose them to considerable structural adjustment costs, which arise from a reallocation of resources and the need to restructure existing tax systems. These challenges, that come with the opportunities EPAs would provide, give ACP countries ample reason to reconsider their EPA strategy and seriously take into account the alternative policy options at hand. The Cotonou Agreement does not oblige the ACP countries to conclude EPAs. Instead, it places the obligation on the EU to provide an alternative framework for trade to countries which may not feel in a position to enter into an EPA that is adequate to their existing situation and compatible with WTO rules (Art. 37.6). There is hardly any solution to this problem other than to include them into the EU’s Generalised System of Preferences (GSP). However, only a substantially improved GSP could be deemed equivalent to the current Cotonou preferences. Since the ACP countries would share these preferences with non-ACP developing countries, they could not avoid losing their competitive edge over non-ACP countries.

In addition to the GSP option, ACP countries can continue with the gradual liberalisation of their regional trade within the framework of existing regional integration schemes. Finally, they can liberalise on an MFN basis either unilaterally or in the course of current or future multilateral negotiations.[10] Liberalising *erga omnes* could be favourable, because trade diverting EPAs would exclude more competitive non-EU suppliers.

Least developed countries currently have little incentive to participate in an EPA purely from a trading perspective, as they would hardly gain additional market access in the EU in return for opening up their own market to the EU. Since March 2001, the Everything but Arms initiative (EBA) offers almost free access.[11] Conditions will become even more generous in the future, when the phasing out of residual tariffs and quotas on bananas, rice and sugar is completed by July 2009 at the latest. Moreover, the EBA regulation is set to be maintained for an unlimited period of time and should not be subject to periodic renewals. Even rules of origin, which so far have deterred ACP-LDCs from using EBA preferences,[12] have been liberalised in the course of the EU’s recent GSP reform that, as of 1 April 2005, includes inter-regional cumulation among

[7] Maurizio Bussolo: Regional or Multilateral Agreements? An Evaluation of Southern-Africa Trade Policy Scenarios, Overseas Development Institute, London 1999, mimeo.

[8] Andrew McKay, Chris Milner, Oliver Morrissey: The Trade and Welfare Effects of a Regional Economic Partnership Agreement, CREDIT Research Paper 00/08, University of Nottingham 2000.

[9] Axel Borrmann, Harald Grossmann, Georg Koopmann: The WTO Compatibility of the EU-ACP Economic Partnership Agreements, Study on behalf of the Federal Ministry of Economic Co-operation and Development, Bonn/Germany, forthcoming.

[10] Reducing tariffs on non-EU imports in addition to those on EU goods (in the case of an EPA) would reduce trade diversion effects and increase the likelihood that import prices fall in line with tariff reductions. However, following this additional policy option, customs revenues would further decline. Cf. Lawrence Hinkle, Maurice Schiff: Economic Partnership Agreements Between Sub-Saharan Africa and the EU: A Development Perspective, in: World Economy, Vol. 27, No. 9, 2004, pp. 1321-1333.

[11] European Union: Regulation 416/2001 of 26 February 2001, Official Journal No. L 60 of 1 March 2001.

regional groupings and the elimination of the value-added rule criterion.[13]

However, LDCs also have to consider several risks that are specific to EBA and stem from its unilateral character. Although the offer appears to be a sustainable political commitment, the EU could still make use of the general safeguard clause, graduate most competitive products from certain beneficiaries, or exclude a country totally when it is removed from the official list of LDCs provided by the United Nations. Thus, LDCs do not hold an unlimited legal right to utilise EBA preferences. Under an EPA, in contrast, LDCs would be contractual partners entitled to export on the terms agreed upon in a binding internal treaty, although standard safeguards would also be a part of the agreements.

Moreover, an EPA appears to be an attractive option for ACP countries that currently regard their integration into the world economy as part of their development strategy. An EPA with the EU could provide a new impetus for liberalising domestic and external affairs. Related reforms could find more domestic support and would thus be more sustainable ("lock-in effect"). Also, an EPA would explicitly include EU commitments for technical and financial support to master related problems and cover sizeable adjustment costs. Multilateral agencies could provide additional financial and technical support. ACP countries may fear cuts in EU support for not joining an EPA. This would hit the aid dependent countries among them hardest.

Given the large number of LDCs in the six EPA-groupings, which even represent the majority in specific EPA-groupings (ECOWAS, ESA and CEMAC), the EPA projects depend to a considerable degree on the participation of LDCs. To get them into an EPA, it is not sufficient for the EU to offer an EBA-like product coverage and equivalent preferential margins. The EU has to go a step further by providing, for example, less restrictive and increasingly simplified rules of origin, concessions for trade in services, reductions of non-tariff barriers, financial support to cover part of the adjustment costs, and technical assistance to manage the process of structural change.[14]

Non-LDCs would ceteris paribus be better off opting for an EPA as far as market access is concerned, since they must meet at least the EBA level which is required by the LDC partners. This makes EPAs by far more attractive than the more restrictive GSP option. For these countries, secured EU market access is also a strong argument in favour of an EPA, as it provides producers with a stable, long-term framework for export-oriented investment decisions. However, EPAs will not be without risk for ACP countries, and the advantages must be balanced with the challenges and costs of structural adjustment and related reforms.

From ACP countries, EPAs require a strong political commitment to intra- and inter-regional trade liberalisation and subsequent structural adjustment as a consequence of increased competitive pressures from regional and European imports.

EPAs require enhanced efforts at regional integration well before the liberalisation of EU imports begins. ACP countries should gradually be exposed to increasing international competition; overly stringent adjustment pressures from simultaneous intra- and inter-regional liberalisation, which could easily overstrain ACP economies, should be avoided. At the moment, the framework for negotiating both EPAs and regional integration is extremely unfavourable, since EPA-groupings like ESA and COMESA do not coincide with existing regional integration schemes, and show a considerable and irrational overlapping. There is a pressing need to consolidate the existing "regional puzzles" as a prerequisite for both the various regional integration projects in general and for the EPAs in particular.

For trade liberalisation to be successful, complementary policies are required. There is a particular need for tax or fiscal reforms in countries where EPA-related short and medium-term losses in government revenue would be sizeable. Moreover, considerable investments in the trade-related infrastructure are needed to significantly reduce current supply-side constraints. And finally, particular attention should be paid to institution building.

[12] Paul Brenton: Integrating the Least Developed Countries into the World Trading System: The Current Impact of EU Preferences under Everything But Arms, in: Journal of World Trade, Vol. 37, No. 3, 2003, pp. 623-646; Paul Brenton, Miriam Manchin: Making EU Trade Agreements Work: The Role of Rules of Origin, in: World Economy, Vol. 26, No. 5, 2003, pp. 755-769.

[13] European Commission: Developing Countries, International Trade and Sustainable Development: The Function of the Community's Generalised System of Preferences (GSP) for the Ten-year Period from 2006 to 2015, Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee, COM(2004) 461 final, Brussels, 7 July 2004; European Commission: GSP: The New EU Preferential Terms of Trade for Developing Countries, Brussels, 10 February 2005, Internet Posting: http://europa.eu.int/comm/trade/issues/bilateral/regions/asem/pr100205_en.htm.

[14] Lawrence Hinkle, Maurice Schiff, op. cit.

Table 2
Government Performance by Region
2002

Region	Voice and Accountability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption	Average*
Non-ACP countries	0.12	0.18	0.27	0.25	0.23	0.22	0.21
high-income countries	1.01	0.96	1.45	1.35	1.42	1.45	1.27
developing countries	-0.35	-0.20	-0.31	-0.30	-0.35	-0.39	-0.32
ACP countries	-0.21	-0.37	-0.50	-0.47	-0.45	-0.42	-0.40
Africa	-0.67	-0.55	-0.71	-0.66	-0.66	-0.62	-0.64
Caribbean	0.62	0.26	0.12	0.25	0.21	0.19	0.27
Pacific	0.62	-0.29	-0.50	-0.73	-0.51	-0.43	-0.31

*Unweighted average.

Note: All six indicators are standardised, that is, they have a mean of zero and a standard deviation of one, and are measured in a range from -2.5 to 2.5. A higher figure means a better governance performance.

Relevance of Institutions

Recent studies have demonstrated that institutional quality is one of the main determinants in ensuring that openness to trade boosts growth rates.[15] According to the findings of these studies, international trade stimulates growth only in economies with better institutions and less stringent business and labour regulations. Above all, institutional quality affects the reallocation of resources, as workers (and capital) in import competing industries have to move to export-oriented sectors. Yet, if the reallocation of production factors involves considerable costs, such as expenses related to the hiring and firing of employees, the retraining of workers, the starting and closing of businesses, access to capital etc., the positive welfare effects of trade liberalisation are very likely to decrease and, in extreme cases, become negative.

Though the overall importance of institutions has been emphasised in the literature, there is less agreement on the specific institutional measures that are required to ensure that reductions in trade barriers increase growth rates. As a starting point for a more detailed analysis of the quality of existing institutions across countries, Kaufmann et al.[16] constructed six indicators that address different components of overall government performance:

- Voice and Accountability, representing different aspects of political rights and civil liberties, such as free and fair elections, the influence of the military in politics and the independence of the media;
- Political Stability and Absence of Violence, describing perceptions of the likelihood that the government in power will be destabilised or overthrown by unconstitutional and/or violent means, due to, for example, ethnic tensions;
- Government Effectiveness, measuring "inputs" that are required for the government to be able to produce and implement good policies, including the quality of government, bureaucracy and public administration, the competence of civil servants, the management time spent with bureaucrats, and the independence of the civil service from political pressure;
- Regulatory Quality, combining measures of the incidence of government intervention in the economy, such as wage or price controls, regulations on foreign trade, and legal restrictions on business ownership or equity by non-residents;
- Rule of Law, representing the extent to which agents have confidence in and follow the rules of society, that is, the enforceability of contracts, the prevalence of black market activities and the effectiveness and predictability of the judiciary;

[15] Dani Rodrik, Arvind Subramanian, Francesco Trebbi: Institutions Rule: The Primacy of Institutions Over Geography and Integration in Economic Development, in: Journal of Economic Growth, Vol. 9, No. 2, 2004, pp. 131-165; David Dollar, Aart Kraay: Institutions, Trade, and Growth, in: Journal of Monetary Economics, Vol. 50, No. 1, 2002, pp. 133-162; Bineswaree Bolaky, Caroline Freund: Trade, Regulations, and Growth, World Bank Policy Research Paper 3255, 2004.

[16] Daniel Kaufmann, Aart Kraay, Massimo Mastruzzi: Governance Matters III: Governance Indicators for 1996-2002, World Bank Policy Research Working Paper 3106, 2004.

- Control of Corruption, describing the exercise of public power for private gain, ranging from the incidence of improper practices, through effects of corruption on the attractiveness of the country as a place to do business, to the likelihood that additional payments are required to "get things done".

Based on several hundred individual measures of governance perceptions from various sources, Kaufmann and associates constructed these six indicators for a total of 199 countries, including 71 of the 79 ACP countries. Averages were then computed in order to compare the overall government performance across regions and country groupings. In general, average figures for non-ACP countries are higher than those for ACP states because most high-income countries with relatively good institutions and governance are included in the former group (Table 2). Yet the overall performance of ACP countries is even lower than the figures for developing non-ACP countries. Apart from voice and accountability of the government, all measures for ACP states are consistently below those of other developing countries and even below zero, indicating anything but good governance.

Amongst the ACP group of countries, the Caribbean countries have the best overall scores on government performance (average of 0.27), followed by the Pacific (-0.31) and African (-0.64) countries. The relatively good figures for Caribbean countries have been influenced by the inclusion of three high-income countries in the region, the Bahamas, Barbados, and Antigua and Barbuda. But even if these three countries are excluded, the average for Caribbean countries is 0.08, which still exceeds the government score of Pacific countries. Within the Caribbean region, Haiti has the worst government performance with an average of -1.4, indicating a very low quality of institutions.

The Pacific countries score relatively highly on voice and accountability of the government, whereas their performance on regulatory quality is rather low (-0.73). African ACP countries, on the other hand, have the lowest scores on government performance, as all six indicators are at or below –0.55. The indicator for government effectiveness is particularly low (-0.71). Whereas the weakest scores can be found for the Democratic Republic of Congo (average of -1.81) and Liberia (-1.53), there are some encouraging examples, such as Botswana and Mauritius, which have average scores of 0.77 and 0.7 respectively. Nevertheless, there is ample room for improvement in African government performance.

The sometimes considerable differences in institutional quality across countries can partly be attributed to geographical factors, such as the disease burden of tropical climates. Acemoglu et al. argue that settler mortality had an important effect on the type of institutions that were built in regions that were colonised by European settlers.[17] Where the settlers encountered relatively few health hazards, they established sound institutions that protected property rights and ensured the rule of law. In other areas, they favoured extracting natural resources and showed little interest in building high-quality institutions. Acemoglu and associates claim that the colonial origins of good/bad governance still have an impact on government quality today, as institutional quality (at present) and settler mortality rates (in the past) are highly correlated.

Yet modern technology enables the often severe impact of these geographical factors to be reduced, which in turn should encourage market-friendly institutional reforms. It has also been suggested that there are other factors explaining these differences in institutional quality, such as the origin of the legal system. Bolaky and Freund[18] show that former French colonies may exhibit a lower rating on government efficiency. In comparison to the British, the French legal system is more bureaucratic and complex, which complicates market transactions and encourages corruption in developing countries. Though any alternations in the legal environment may take time, improvements in the basic functioning of the legal system allow for a better allocation of resources and the efficient functioning of markets, which in turn increase growth rates.

Conclusions

The probable economic repercussions, along with the related challenge of structural change and the time required for indispensable institution building call for a diligent preparation of trade liberalisation within the framework of the EPAs. EPAs are a particularly ambitious endeavour for the 39 LDCs among the 79 ACP countries, as much of the reforms required have to begin from scratch. To avoid excessive demands, the timing of the EPA process should receive utmost attention in the current negotiations. The ACP countries have already suggested a transition period for the

[17] Daron Acemoglu, Simon Johnson, James Robinson: The Colonial Origin of Comparative Development: An Empirical Investigation, in: American Economic Review, Vol. 91, No. 5, 2001, pp. 1369-1401.

[18] Bineswaree Bolaky, Caroline Freund, op. cit.

EPAs that should go far beyond the standard WTO criteria.[19] In fact, an alignment of the WTO rules with the specific character of North-South Free Trade Agreements is required.[20] The EU Commission has also recently indicated a preference for a more pragmatic and flexible approach to the design of the liberalisation process, especially regarding its timing, scope and depth.[21] The ACP countries should take the EU at its word, and continue to refer to its commitment, as stated in the Cotonou Agreement, to provide financial and technical support for reforms. However, the success of the EPA project primarily depends on the ACP countries' own efforts. They have to provide and sustain the political, economic and institutional environment that is not only a prerequisite for the EPA process, but is also indispensable for the general progress of their own development.

[19] WTO: Submission on Regional Trade Agreements, Paper by the ACP Group of States, Negotiating Group on Rules, TN/RL/W/155, 28 April 2004.

[20] For a detailed disussion of the issue see also Axel Borrmann, Harald Grossmann, Georg Koopmann, op. cit.

[21] Address by Peter Mandelson, EU Trade Commissioner, ACP–EU Joint Parliamentary Assembly Bamako, Mali, 19 April 2005, http://trade-info.cec.eu.int/doclib/html/122720.htm.