New aspects of the EU-ACP relations: The Aid for Trade initiative to serve the Economic Partnership Agreements

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Outline

- Reseach objective

- Cotonou Partnership Agreement

- Economic Partnerhsip Agreements

- Aid for Trade in the EU
  - Methodology
  - Results

- Conclusions

Research objective

Analysing empirically how the Aid for Trade inititative can contribute to the trade expansion

between the ACP countries and the EU

Aid for Trade as a tool for implementing EPAs?

Method: Gravitiy model

Cotonou Agreement

- History: the Lomé Conventions (1975-2000)
- Signed in 2000
- New elements:
  - Reciprocal trade preferences
  - Partnerhsip, political conditionality, good performers
  - Political dialogue, NGOs
  - Poverty, sustainable development, <u>integration into world trade</u>
- Pillars of development cooperation: trade and aid
- Framework for Economic Partnership Agreements

Economic Partnership Agreements

- Negotiations: 2002 – up to date
  - 6 ACP-regions –> the Caribbean
- Objective: foster the developing countries' share of world trade
  - Reciprocal trade preferences!
- Risks for the ACP countries
  - Underdeveloped economic structure, decreasing income from tariffs, trade diverion effect
  - Slowing regional integration, sanitory regulation
- EPA: negative effects? (EU: winner)
- Aid for Trade as a solution?

Effects of Aid for Trade

Study	Object of the analysis (donor)	Results
Helble et al (2009)	Export (general)	++
Huchot-Bourdon et al (2009)	Classification of the developing countries	n.a.
Bearce et al (2010)	Export (USA)	++
Moreira (2010)	Export (general)	++
Naito (2010)	Costs (general)	++
Vijil és Wagner (2010)	Export (general)	++
Cali és te Velde (2011)	Trade costs, export (general)	++
Pettersson és Johansson (2011)	Export (general)	+
Udvari (2011)	Least developed countries (general)	+/-

Note: ++: positive results, +: positive, but not significant impact, +/-: mixed results, n.a.: not impact analysis was the aim of the study
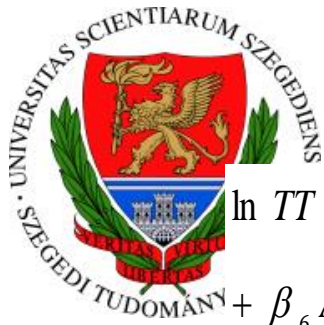*Source*: author's own

Empirical analysis

Donors and recipients

- EU: aggregating EU-15
- 85 developing countries – 43 ACP

Measuring AfT – OECD database

- Trade related infrastructure = economic infrastructure
- Building productive capactiy + trade development = building productive capacity
- Trade policy and regulations

Total Aid for Trade

$$\ln TT_{i,eu} = \beta_0 + \beta_1 \ln(Y_i Y_{eu}) + \beta_2 \ln(Yc_i Yc_{eu}) + \beta_3 \ln Dist_{i,eu} + \beta_4 \ln AfT + \beta_5 Time +$$

$$+ \beta_6 ACP + \beta_7 Oil + \beta_8 LDC + \varepsilon,$$

$$\ln TT_{i,eu} = \beta_0 + \beta_1 \ln(Y_i \times Y_{eu}) + \beta_2 \ln(Yc_i Yc_{eu}) + \beta_3 \ln Dist_{i,eu} + \beta_4 \ln \vec{AfT} \times ACP +$$

$$+ \beta_6 \ln \vec{AfT} \times LDC + \beta_7 \ln AfT \times Oil + \beta_5 Time + \varepsilon,$$

TT: total trade, Y: GDP, Yc: GDP per capita, Dist: distance, AfT: Aid for Trade, Time: 2006-2010, ACP-LDC-OIL: dummys

Areas of Aid for Trade

$$\ln TT_{i,eu} = C + \beta_1 \ln Y_i Y_{eu} + \beta_2 \ln Yc_i Yc_{eu} + \beta_3 \ln Dist_{i,eu} + \beta_4 \ln EcI + \beta_5 \ln BPC + \beta_6 \ln TPR +$$

$$+ \beta_7 Time + \beta_8 ACP + \beta_9 Oil + \beta_{10} LDC + \varepsilon,$$

ECI: economic infrastructure, BPC: building productive capacity,
TPR: trade policy and regulations

Results

Average Aid for Trade assistance (in thousands of dollars)

Variable	ACP-countries ($n_1 = 43$)	Non-ACP ($n_2 = 42$)	Total sample ($n_3 = 85$)
Economic infrastructure	14,852 (34,129)	44,858 (101,330)	29,678 (76,647)
Productive capacity	19,212 (27,352)	34,941 (57,229)	26,984 (45,320)
Trade policy and regulations	0,687 (2,379)	0,949 (5,460)	0,817 (4,191)
Total Aid for Trade	34,752 (51,793)	80,741 (135,638)	57,479 (104,655)

Source: author's own calculations

Coefficients (sig.) of the regression models

Variable	Model A	Model B	Model C	Model D
Constant	-33.626 (0.000)	-33.780 (0.000)	-33.348 (0.000)	-33.311 (0.000)
Paired GDP (ln)	0.897 (0.000)	0.832 (0.000)	0.838 (0.000)	0.837 (0.000)
Paired GDP per capita (ln)	0.088 (0.077)	0.184 (0.005)	0.154 (0.017)	0.165 (0.014)
Distance (ln)	-0.972 (0.000)	-0.903 (0.000)	-0.893 (0.000)	-0.907 (0.000)
2007 (0 if no, 1 if yes)	-0.034 (0.801)	-0.003 (0.979)	0.002 (0.989)	-0.003 (0.979)
2008 (0 if no, 1 if yes)	-0.163 (0.235)	-0.197 (0.130)	-0.182 (0.158)	-0.161 (0.218)
2009 (0 if no, 1 if yes)	-0.568 (0.000)	-0.632 (0.000)	-0.609 (0.000)	-0.619 (0.000)
2010 (0 if no, 1 if yes)	-0.322 (0.000)	-0.374 (0.005)	-0.359 (0.000)	-0.358 (0.007)
Total Aid for Trade (ln)		0.131 (0.000)	0.101 (0.000)	
ACP-country (0 if no, 1 if yes)		0.565 (0.000)		0.569 (0.000)
Oil-exporting country (0 if no, 1 if yes)		0.186 (0.111)		0.162 (0.167)
LDC (0 if no, 1 if yes)		-0.372 (0.004)		-0.398 (0.002)
AfT*ACP (ln)			0.061 (0.000)	
AfT*LDC (ln)			-0.049 (0.000)	
AfT*oil-exporting (ln)			0.011 (0.349)	
Economic infrastructure (ln)				0.053 (0.000)
Building productive capacity (ln)				0.060 (0.010)
Trade policy and regulations (ln)				-0.004 (0.790)
R^2	0.823	0.847	0.850	0.846

Coefficients (sig.), ACP vs. non-ACP

Variable	ACP	non-ACP
Constant	-26.967 (0.000)	-35.186 (0.000)
Paired GDP (ln)	0.666 (0.000)	0.895 (0.000)
Paired GDP per capita (ln)	0.251 (0.007)	0.079 (0.406)
Distance (ln)	-0.865 (0.000)	-0.803 (0.000)
2006 (0 if no, 1 if yes)	0.496 (0.001)	
2007 (0 if no, 1 if yes)	0.540 (0.000)	-0.055 (0.750)
2008 (0 if no, 1 if yes)	0.371 (0.010)	-0.184 (0.298)
2009 (0 if no, 1 if yes)		-0.672 (0.000)
2010 (0 if no, 1 if yes)	0.300 (0.035)	-0.460 (0.011)
Economic infrastructure (ln)	0.043 (0.020)	0.079 (0.001)
Building productive capacity (ln)	0.141 (0.000)	-0.016 (0.652)
Trade policy and regulations (ln)	0.023 (0.261)	-0.025 (0.234)
Oil-exporting country (0 if no, 1 if yes)	0.844 (0.000)	-0.037 (0.783)
LDC (0 if no, 1 if yes)	-0.294 (0.092)	-0.707 (0.001)
R^2	0.796	0.855
Adj. R^2	0.783	0.846
N	215	210

Conclusions

- EU: accepts AfT as a tool for implementing EPAs
  - Their objective: fostering trade

- Gravity model results
  - AfT has significant impact on trade
  - EI, BPC are significant (but in non-ACP)

- That is: AfT may contribute to trade expansion
  - AfT as a bargaining power
  - EU may be a winner

Thank you for your attention!