

# EU-ACP Outline

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## **Abstract**

This paper examines the relationship between intra-regional trade integration among African, Caribbean, and Pacific (ACP) countries and their bilateral trade with the European Union. Using a panel of 78 ACP countries across seven regional economic communities from 1995 to 2020, we estimate gravity models that control for standard trade determinants and time-varying EPA treatment. We find that higher intra-regional trade shares are associated with significantly lower EU-ACP bilateral trade, consistent with a “stumbling block” effect of regional integration. At the mean intra-regional trade share of 10 percent, bilateral trade is approximately 16 percent lower; at the 90th percentile (26 percent), the effect reaches 36 percent. However, Economic Partnership Agreements (EPAs) partially offset this negative relationship, suggesting that EU-ACP trade agreements can mitigate the trade-diverting effects of regional integration. These findings have important implications for understanding the interplay between regional integration and preferential trade arrangements in developing countries.

## 1 Executive Summary of Results

An examination of whether intra-regional trade integration among ACP (African, Caribbean, Pacific) countries helps or hinders bilateral trade with EU member states, and whether in-force Economic Partnership Agreements (EPAs) change this relationship.

## 2 Key Findings

1. **Main Result:** Intra-REC trade share has a **negative and significant** effect on EU-ACP bilateral trade (coefficient =  $-1.76$ ,  $p < 0.01$ ). This supports the “stumbling block” hypothesis—stronger regional integration among ACP countries actually reduces their bilateral trade with the EU.
2. **EPA Interaction:** The positive and significant interaction term ( $0.90$ ,  $p < 0.05$ ) suggests that EPAs partially mitigate the negative effect of regional integration on trade.
3. **Trade Direction:** The effect is slightly stronger for EU exports to ACP ( $-1.86$ ) than for ACP exports to EU ( $-1.60$ ).
4. **Heterogeneity:** All RECs show negative effects, but with substantial variation—PIF (Pacific Islands) shows the largest negative coefficient ( $-29.6$ ), while Central Africa shows the smallest effect ( $-0.81$ , not significant).

# **OUTLINE**

## **1. INTRODUCTION**

- Research question and motivation
- Preview of main findings
- Contribution to literature

## **2. INSTITUTIONAL BACKGROUND**

- Cotonou Agreement and EPA negotiations
- ACP regional groupings (ECOWAS, SADC, EAC, etc.)
- Timeline of EPA implementation

## **3. DATA AND DESCRIPTIVE STATISTICS**

- Data sources (BACI, CEPPII, WDI)
- Sample construction
- Key variable definitions
- Summary statistics (Table 1)

## **4. EMPIRICAL STRATEGY**

- Gravity model specification
- Fixed effects rationale
- Identification discussion

## **5. MAIN RESULTS**

- Baseline gravity (Model 1)
- Main specification with IT Share (Model 2)
- EPA interaction (Model 3)
- Interpretation of magnitudes

## **6. MECHANISMS AND HETEROGENEITY**

- Trade direction analysis
- REC-by-REC subsamples
- Regional subsamples (Africa/Caribbean/Pacific)

## 7. ROBUSTNESS CHECKS

- Sample sensitivity
- Specification alternatives
- OLS vs PPML comparison

## 8. CONCLUSION

- Summary of findings:
  - Strong “stumbling block” effect exists
  - Higher intra-regional trade → lower EU-ACP bilateral trade
  - At mean (10%): 16% lower trade
  - At 90th percentile (26%): 36% lower trade
  - EPAs partially offset the negative relationship
- Policy implications:
  - Trade agreements must account for regional integration effects
  - EPAs can mitigate trade-diverting effects of RECs
  - Important for development policy in developing countries
- Limitations and future research:
  - Data constraints for smaller ACP countries
  - Need deeper mechanism exploration
  - Could extend to other developing regions

Table 1: Intra-REC Trade Integration and EU-ACP Bilateral Trade

	Baseline PPML	IT Share PPML	IT × EPA PPML	IT Intensity	IT Share OLS
<i>Variables</i>					
ln(Distance)	-1.717*** (0.607)	-1.769*** (0.639)	-1.769*** (0.639)	-1.764*** (0.639)	-1.195*** (0.240)
Common Language	1.113*** (0.218)	1.119*** (0.222)	1.119*** (0.222)	1.120*** (0.222)	0.687*** (0.125)
Colonial Tie	0.205 (0.228)	0.186 (0.232)	0.186 (0.232)	0.184 (0.232)	1.251*** (0.202)
EPA (=1 in force)	-0.031 (0.047)	-0.058 (0.044)	-0.158** (0.066)	-0.055 (0.044)	-0.136*** (0.044)
Intra-REC Trade Share		-1.755*** (0.384)	-1.758*** (0.378)		-1.526*** (0.245)
EPA × IT Share			0.901** (0.422)		
Intra-REC Trade Intensity				-0.006*** (0.002)	
<i>Fixed Effects</i>					
Exporter × Year	Yes	Yes	Yes	Yes	Yes
ACP Importer	Yes	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes	Yes
Observations	44,054	43,238	43,238	43,238	40,334
R <sup>2</sup>					0.755

*Notes:* Clustered (pair\_id) standard errors in parentheses. \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ . Columns (1)–(4) estimated via PPML. Column (5) is OLS on logged trade (zeros dropped). At the mean IT Share (10%), column (2) implies a 16% reduction in bilateral trade; at the 90th percentile (26%), the effect is a 36% reduction. The EPA interaction in column (3) suggests EPAs partially offset the negative regional integration effect.

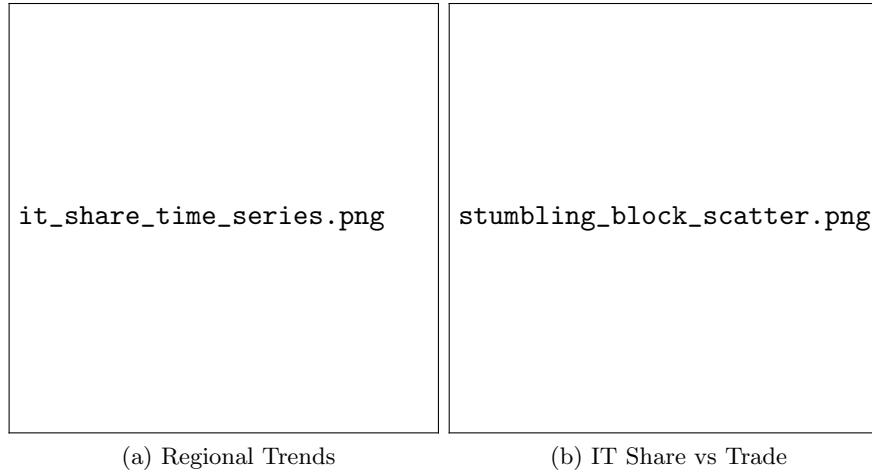


Figure 1: Regional Integration and EU-ACP Trade: Descriptive Evidence

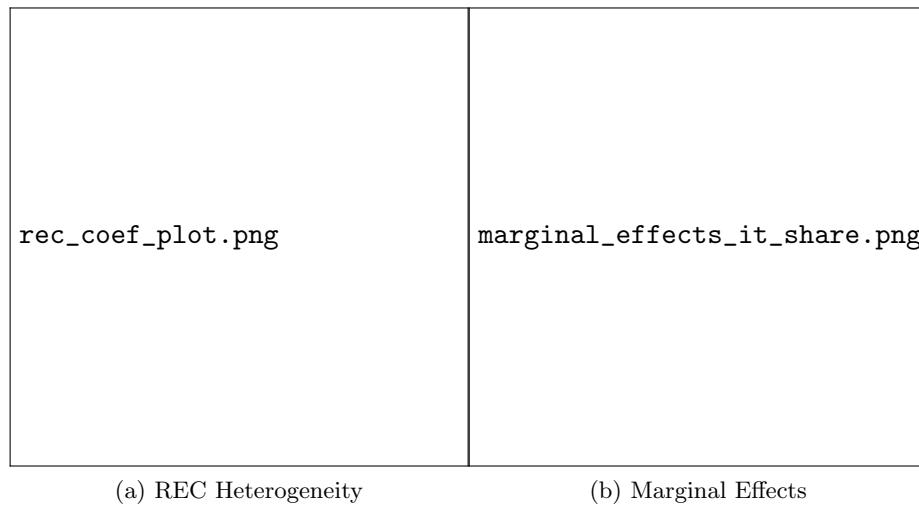


Figure 2: Effect of Intra-REC Trade Share on EU-ACP Bilateral Trade