The Lomé Conventions and the causes of economic growth

Gerrit Faber

1. Introduction

The parties that concluded the Lomé Convention in 1975 were convinced that they had launched a new and effective instrument for development of the countries in Africa, the Caribbean and the Pacific (ACP). The Convention created “a new model for relations between developed and developing states, compatible with the aspirations of the international community towards a more just and more balanced economic order,” according to the Preamble of the Convention. The conviction that Lomé was such a model was reaffirmed in each successor Convention, including the revised fourth edition of 1995.

At the occasion of the signing of the Convention in 1975, Francois-Xavier Ortoli – former President of the Commission of the European Community (EC)- said:1 “What we want while respecting our partners’ options, is to bring into one joint scheme our know-how and technological capacity, our markets and in some instances our capital and our products … together with the resources at the disposal of our partners and their desire to use this new situation to build up their own development …” And Claude Cheysson, member of the European Commission, who was responsible for the negotiations that produced the first Lomé Convention, said on the occasion of the signing of the agreement that “All this work has produced an agreement which, I say with some pride, is unique in the world and in history. Never before has there been any attempt to do anything of this kind. It is the first time in history that an entire continent has undertaken a collective commitment…”

In particular, the combination of trade preferences and aid in one contractual relationship was thought to work wonders in terms of development. At the end of the Lomé era, in 2000, no other conclusion was possible than that the performance of the ACP economies had fallen short of the expectations by a large degree as per capita incomes were lower than in 1980 in the Sub-Saharan African (SSA) countries, where 95 per cent of the ACP population lives. This raises the question of the causes of the disappointing growth experience of these countries.

Economists have tried to find the causes for growth and development since the early days of economics as a modern science.3 Until this day, this quest has not led to the final answer, although many insights have been acquired on the way. Several lines of research have been followed: theories of economic growth have been developed, others have undertaken empirical studies using time series and cross-sectional data or analysed the diverse growth experiences of individual countries. In this paper I will review the growth experience of the SSA economies and the related literature (section 2) In section 3, I will discuss some of the

1 As quoted in Frey-Wouters, 1980, p. 3.

2 Cited in The Courier (1975), No. 31, special issue.

3 The title of Adam Smith’s classic work is a case in point. (Smith, 1904)
recent insights of empirical studies in comparative development and relate those insights to the EU development policies under Lomé. Section 4 will draw conclusions.

2. The Lomé Convention and economic development in SSA

Four successive Lomé Conventions have been negotiated, and at every occasion new issues were introduced, which was partly a tribute to the logic of gradualism and incrementalism that underpinned ACP-EU relations. Among the sometimes delicate and controversial issues that were introduced in ACP-EU relations since 1975 were non-reciprocal trade concessions (Lomé I), the globalisation of ACP-EU cooperation (Lomé II), and economic, social, and cultural rights, as well as human dignity (Lomé III). Others included human rights, structural adjustment policy, economic diversification, intra-ACP regional cooperation, democratisation, and rule of law (Lomé IV). According to most observers, Lomé remained the most far-reaching, elaborate, and complex North-South contractual agreement among its contemporaries. (Babarinde 1988) During most of the accord’s 25-year history, it was widely held as the undisputed flagship of the development policies of the EU, largely because of its unrivalled extensive concessions to the ACP group. Thus, it occupied the apex of the pyramid of privileges of the EU for almost two-and-a-half decades.

One of the principal provisions of all four Lomé Conventions was non-reciprocal trade preferences, which allowed more than 90 percent of ACP exports, predominantly primary commodities, to enter the EU duty free. Special protocols that governed the exports of ACP sugar, rum, beef, veal, and bananas to the EU were appended to the Convention. Another privilege of the pact was the provision of economic assistance to the ACP countries via the European Development Fund (EDF). The disbursement of funds and the management of the EDF were based on “need,” defined by, among others, per capita income. The third privilege the ACP group enjoyed was the provision of two commodity insurance schemes, viz., the stabilization of exports (STABEX) in Lomé I and the system of minerals (SYSMIN) in Lomé II, respectively, for countries that were dependent on agricultural exports and on the exports of minerals. The insurance schemes were designed to help mitigate the economic and budgetary impacts of shortfalls in export revenues of the aforementioned primary commodities. A fourth privilege was the provision of industrial and technical cooperation to enable the utilization of the know-how of the EU to facilitate the industrialization and development of ACP societies. To this end, a Center for Industrial Development (CID) and an Industrial Cooperation Board (CIB) were established. A final major provision of the arrangement was the creation of a handful of institutional frameworks to facilitate policy dialogue. 4

One of the reasons for the EU to overhaul the Lomé Convention was disappointment with the overall pace of development of the ACP countries. This section will discuss the development performance of the ACP group, and the SSA countries in particular, and the question of how Lomé, if at all, has contributed to the performance.

Of the 38 least developed countries (LDCs) in the ACP group, 32 are in SSA. The average gross national income (GNI) per capita in 2000 at purchasing power parity (PPP) was

4 It is important to bear in mind that the last two provisions are not unique to the Lomé Convention, because they can be found in other EU agreements with developing countries.
$480 in SSA, which is a quarter of the average for the group of low-income countries as a whole. The Pacific group is at the latter average, while the Caribbean members are somewhat better off with $3016 per capita, but they do not reach the income level of the lower middle-income countries, which was $4580 in 2000. This makes the ACP group a very poor selection out of the entire group of developing countries. The low levels of welfare in the ACP in 2000 are largely the result of very low growth rates over the past two decades in combination with high population growth. In SSA, average growth of Gross Domestic Product (GDP) was 1.7 per cent during the 1980s and 2.4 per cent in the 1990s. Annual population growth, however, was 2.9 and 2.6 per cent respectively. This led to falling per capita incomes during both decades. Poverty increased dramatically in SSA. At the end of the millennium, there were 292 million people living on less than $1 a day in SSA. This number had grown by 75 million over 1987-1998. However, this average should not hide the fact that of the 48 SSA countries in the ACP group, 18 saw their per capita incomes rise during the 1990s. For the other groups of ACP states, there is a serious lack of data on economic development. The available data show that there has been a mixed performance in the Caribbean. Haiti and Jamaica respectively had a negative and a low positive growth of total GDP (at PPP) in the 1990s. At the same time, the Dominican Republic did much better.

Low growth rates for GDP have gone hand in hand with an export performance that is inferior to the rest of the world. SSA exports of goods increased by 2.4 per cent annually during the 1980s and 4.4 per cent during the 1990s. This was 3.3 per cent and 5.3 per cent for all low-income countries, and 7.3 per cent and 8.8 per cent for all middle-income countries. The ACP share in world exports declined from 3.4 per cent in 1976 to 1.9 percent in 2000.

A safe conclusion that could be drawn from the foregoing is, that despite the relatively generous development contract with the EU, the ACP have not been able to realize growth rates that opened the perspective of catching up with developing countries outside the ACP group. Why did the Lomé Conventions not bring about more growth of private and social welfare? One could argue that the plight of the ACP would have been far worse without the Lomé Convention. However, it is more realistic to state that the Lomé Conventions were only one, and probably a diminishing and non-crucial factor in ACP development. A second issue is, whether, given their limited significance, the Conventions have been effective in promoting development. Concerning the limited relevance of the Conventions, it is good to recall that at the time of the conclusion of the first Lomé Convention, policy makers and the interested public had the sincere impression that something great had been created that would contribute to ACP development in a substantial way, as illustrated by the quotes in the Introduction of this paper. This was in stark contrast with studies and reports on Lomé and on development in ACP countries that had been published since the first Lomé Convention. In 1994, Babarinde concluded from an empirical study of the effects of Lomé that “… it might be argued that the jubilation of 1975 was premature … the findings of this study allow us to assess the Lomé agreements as neither a success nor a failure thus far.” It is likely that the high expectations and ambitions of 1975 made it very difficult to acknowledge that the

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instruments of Lomé had limited, and perhaps even contrary effects on the development of the countries concerned.8

As far as trade preferences were concerned, the Lomé model came under ever more intense scrutiny, because of the almost constantly falling share of the ACP in total EU imports from third countries: from 7 per cent in 1976 to 4 per cent in 2000. A group of German researchers drew attention to this phenomenon as early as 1984.9 At the same time, the concentration of ACP exports in a limited number of commodities remained very high: about 70 per cent of their total exports are in 10 products only, despite the diversification objective.10 Under the Lomé preferences, ACP exports enter the EU free of duties, or at reduced rates. The latter applied for about one percent of ACP exports in 1973, mainly agricultural products of the temperate zone.11 These preferences were considered to be very favorable.12 However, this position was much less effective than was thought in 1975, for a few reasons. First, the preferential margin – the difference between the normal, or most favored nation (MFN) tariffs and the (mostly zero) tariffs on ACP exports - kept falling as a result of global trade liberalization in GATT/WTO rounds.13 Second, a growing number of countries was receiving preferential treatment, sometimes more favorably than the Lomé preferences (e.g., the candidate EU member states), or in some cases less favorably (e.g., the Generalized System of Preferences –GSP- and the preferences for the Mediterranean countries). This increased competition among exporters from different preference-receiving countries. Third, and perhaps most importantly, the composition of ACP exports was such that only a relatively small share actually qualified for preferential treatment (38 per cent in 1977, and 35 per cent 10 years later). The explanation for this is that the ACP group exported many commodities on which a zero tariff is levied, whatever their origin. Although some ACP countries started to export new products that effectively received preferences, the quantities were too small to show up in the ACP market shares in the EU.14

With respect to the financial support from the EDFs, Palánkai warned as early as 1977 that “The Lomé Convention does not mean a major transfer of resources ... The roughly 3,400 million units of account made available over five years mean only an annual per capita aid of

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8 This is not to say that there were no critics in the early days of the Lomé Convention. There was a debate among the ‘globalists’ and the ‘regionalists’. The globalists argued that the development problem requires a new international economic order; Lomé, as an interregional agreement, was likely to act as a barrier to such a global solution. See, e.g., Frey-Wouters (1980: 4 et seq.).


13 From 12.5 per cent at the start of the EEC in 1958 to less than six per cent after the Tokyo Round. After the implementation of the Uruguay Round results this percentage will fall to about three per cent. Van Dijck and Faber (2000).

14 For a quantitative analysis of the commodity composition of ACP exports, see: Stevens and Weston (1984); Faber (1989).
3.4 units of account.\textsuperscript{15} In 1998, the EU disbursed €1,952 million to the ACP; this was €3 per ACP inhabitant.\textsuperscript{16} About €4.2 per capita per annum has been earmarked for the first five years of the Cotonou agreement. In 1999, SSA countries received 20 dollars per capita from all donors in official development assistance (ODA). Although these figures should be used with care, they indicate orders of magnitude.\textsuperscript{17} The EDF appears to be an important funding source and, for some ACP countries, the main/only source. For SSA countries total ODA constituted 4 per cent of GDP in 2000. As such these are substantial amounts. However, it is doubtful whether the EDF disbursements were sufficient to be a decisive factor in the region’s development.

Many institutions, academics and policy-makers have tried to analyze the slow and sometimes negative growth of ACP economies. In the years following independence, economic growth was ‘reasonably robust’ for many SSA countries. However, between 1972 and 1982 growth stopped or reversed in almost all countries of the region.\textsuperscript{18} As early as the first half of the 1980s, many reports had been published to draw attention to the ‘growth crisis’ in SSA.\textsuperscript{19} The causes for slow growth were sought in different directions over which fierce debates took place among policy makers, academics and international organizations. On the one hand, the defunct Organisation for African Unity (OAU) put the blame on factors outside the control of African governments, such as the legacy of colonial exploitation, dependence on commodity exports and falling terms of trade. The World Bank emphasized domestic policies to explain low growth rates in SSA. Shocks such as oil price hikes and droughts further complicated the challenges of development. Policy recommendations varied: from ‘collective self-reliance’ to macro-economic stabilization and liberalization. External factors appeared to have a declining explanatory value in studies that tried to find the causes of low SSA growth, and domestic policy factors appeared to be more significant in studies that appeared in the 1990s. According to Collier and Gunning,

\begin{quote}
Until recently, there was broad agreement that Africa’s problems were predominantly associated with its external relations, although some analysts emphasized the policy-induced lack of openness and markets, while others attributed poor performance to over-dependence on a few commodities, the prices of which were declining and volatile. In our view, the argument that Africa's poor performance originates in its overdependence on commodities has looked weaker in recent years: Africa has lost market share in its major exports, often spectacularly. The focus of the discussion has consequently shifted to underlying reasons for poor domestic performance, and in turn to domestic factors. … we believe that domestic policies largely unrelated to trade may now be the main obstacles to growth in much of Africa.\textsuperscript{20}
\end{quote}

\begin{footnotesize}
\begin{enumerate}
\item Palánkai (1977: 153). In $ of 1974: $4,220 million and $4.2 respectively.
\item Total aid figure includes non-EDF disbursements, such as food and emergency aid. Source: ECDPM (2001).
\item World Bank (2002: 239).
\item Ndulu and O’Connell (1999).
\item Organisation for African Unity (1980); World Bank (1981); World Bank (1983); World Bank (1984).
\item Collier and Gunning (1999).
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Although the debate on causes and remedies became more balanced in the second half of the 1980s, it took time to work out and adopt policy reforms and to adapt external economic inputs into African development. SSA governments addressed the development crisis in different ways. Many ACP governments had reacted to falling export receipts after 1980 by raising import barriers and increasing foreign borrowing in order to maintain the balance of payments. Some of them reversed these policies. In 1994, the World Bank classified the SSA countries according to their fiscal, monetary and external economic policies. Those SSA countries that most improved their macro-economic policies showed a better growth performance than those where policies deteriorated. In 1995, a report by the IMF distinguished between sustained adjusters, countries having persistent macro-economic imbalances, and countries having low macro-economic imbalances. The report concluded that the growth record of the sustained adjusters was much better compared to the countries with persistent macro-economic imbalances. At the same time, both multilateral financial institutions acknowledged that macro-economic reforms were not a sufficient condition for an improved economic performance. Structural and institutional reforms, sequencing of reforms, social safety nets, political commitment, external technical and financial assistance and political stability and the absence of armed conflicts were crucial for success, as demonstrated by the research on which the 1995 IMF report was based.

It took the ACP and EU some years to define their position in the growth debate, and to draw the consequences for the implementation of the Lomé Convention. Low or negative economic growth and rising debts forced many ACP countries to find new directions for their development paths. At the same time, there was fierce opposition against the Structural Adjustment Programs (SAPs) that were conditional on receiving support from IMF and World Bank. The EU hesitated to support ACP countries in their structural adjustment efforts, as it did not want to create the impression that it passively accepted the `Washington consensus‘. In 1987, the EU introduced a special program to support highly indebted SSA countries. To that end, ECU 500 million was set aside for the program, of which 100 million were additional to the available funds under the EDF. In the fourth Lomé Convention (1990-2000), structural adjustment eventually got its definite place. ACP governments got access to macro-economic financial assistance. In principle all ACP states were eligible for this assistance, although those ACP states that undertook SAPs that were agreed with “the principal multilateral donors … shall be treated as having automatically satisfied the requirements for adjustment assistance”. In the implementation of this new aid instrument, the EU tried to find a particular function for itself, distinct from the IMF and the World Bank: “… the support program shall make provision from the outset to deal with the negative social effects that may result from the process of adjustment efforts …”. The new structural adjustment fund amounted to ECU 1.15 billion for 1990-95 and to ECU 1.4 billion ECU for the remaining years of the decade, which was approximately 10 per cent of the EDFs. Other parts of the EDF, such as the funds earmarked for national programs, could also be used for structural

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21 J. Ravenhill (1986).
22 World Bank (1994).
24 Art. 246.2 of Lomé IV.
adjustment. At the end of the 1990s, 17 per cent of EU aid to ACP countries was devoted to structural adjustment.\textsuperscript{25}

The introduction of structural adjustment into the Lomé Convention and into the practice of ACP-EU cooperation did mean a shift of funds and activities. It took about 10 years to realize this change. Continuity has always been one of the main characteristics of the Lomé Conventions and its predecessors. The principles of equality of partners, respect for their sovereignty and the right of each state to determine its own policy options, and the common history made a radical change difficult to accomplish, even if the EU would have strongly advocated this – which was not the case. The result has been that the benefits from the Lomé Conventions have been distributed in a way that did not particularly benefit those ACP countries that were implementing policy changes that were advocated at the time to create an environment favorable for a more rapid economic development. In their analysis of the distribution of the Lomé benefits in the first half of the 1990s, Faber and Roelfsema still concluded “… the Lomé instruments were biased against countries with sustained adjustment records and against countries that had improved their macroeconomic policies. Tariff preferences gave larger per capita benefits to countries with low macroeconomic imbalances and deteriorating macroeconomic policies than to countries that were sustained adjusters”.\textsuperscript{26} Lomé has enabled ACP countries to receive substantial amounts of assistance in the form of trade preferences and financial means while implementing economic policies that were a barrier to growth. In that context, Lomé had a negative influence on long-term development.

It may be concluded that the Lomé Conventions were based on the ideas about the causes of underdevelopment of the ACP countries that were dominant in the 1960s. Back then, the overriding cause for the low level of welfare and growth was considered to be specialization in a low number of commodities, falling terms of trade for these countries' exports and low levels of investment. Non-reciprocal trade preferences should offer export and diversification opportunities, Stabex and Sysmin were to remedy the adverse consequences of exporting commodities and financial support was to take care of the gap between savings and investments needed. These were the innovations introduced in Lomé I (1975) and Lomé II (1980). This was combined with the notions of equality and sovereignty of the partners. The result was, that in many ACP countries - particularly in SSA - the Lomé Convention was not effective in improving the environment for viable private investment in productive activities. The Lomé Conventions insufficiently addressed macro-economic imbalances, low quality of public services and lack of competition. As a result, economic growth was low and financial and technical aid could not be very effective.\textsuperscript{27} It was only toward the end of the Lomé era that the EU tried to more effectively channel aid to those countries that try to formulate and implement policies that contributed to economic growth. With the benefit of hindsight, it might be argued that this change was the prelude to the much larger alterations that the Cotonou Agreement was to bring about.

3. The causes of growth

There was a time when the recipes for development were simple. Start by investing in a growth pole to create scale and the rest of the economy will be taken in tow. From the 1950s

\textsuperscript{25} ECDPM (2001).

\textsuperscript{26} Faber and Roelfsema (1997). Countries with low macro-economic imbalances are those SSA countries that did not need a SAP at the time.

\textsuperscript{27} These notions were already discussed at the end of the 1980s, e.g. in T. Killick and C. Stevens (1989).
onwards, economists were computing the financing gap to determine the required amount of external assistance. Following the Harrod Domar growth model, growth was thought to be proportional to last year’s investment in physical capital. Later on, investment in education, rural development, debt reduction, control of population growth and technology transfer have been put forward as panaceas for economic development and have known their periods of popularity with aid practitioners and private organizations.\(^\text{28}\) The attractiveness of these panaceas lies in their simplicity -- development can be realized if the right measure is taken -- their applicability -- if sufficient money is invested or given as aid, development will follow -- and their plausibility -- people will be able to earn higher wages if they are better educated and use more and better equipment. International trade has also figured as a decisive factor in promoting growth: as indicated by the label “the engine of growth”. And even today, calculations of the gains from trade liberalization are used to convince the public of the necessity of bringing these rounds to a good end. A recent document of the UN Economic and Social Council considers how to realize “the potential of international trade as an engine for development”.\(^\text{29}\) However, in the context of development thinking, participation in international trade has not got a universal positive reception. Not only were early analysts not convinced of the power of the trade engine -- Kravis argued that trade is only “the handmaiden of growth” (Kravis, 1970) -- the neo-Marxist and dependencia schools of development thinking argued that trade retards or even hampered development. Import substituting development strategies were very popular until the mid-1970s. Despite this, the slogan “trade, not aid” was used in the 1970s and 1980s to gain support for the idea that developing countries should be stimulated to increase their exports. The slogan was also addressing the tendency at the side of the rich countries to compensate high trade barriers on products relevant for developing countries by providing aid. It was argued that exports of manufactured products would be particularly favourable as this would create higher value-added production compared to agricultural production and positive spill-overs. The creation of preferential trade systems for developing countries was a logical consequence of this reasoning. In practice, developing countries were excepted from the obligations of reciprocal liberalisation to offer them the room for import-substituting industrialization while they got preferential treatment in the markets of the industrialized countries.

Trade and development

The “engine thesis” is founded on two pillars: one theoretical and one more empirical. The theoretical underpinning goes back to the classical economists who devoted a substantial part of their work to the demonstration that free international trade improves the level of welfare of the participating economies. Smith argued that it would be wise for a country to import a product if the import price is lower than the domestic price. Ricardo came up with the argument of comparative advantage, which has a much wider impact: an economy will improve its welfare if it specializes in those sectors in which it is most efficient; this may imply that it imports goods from suppliers in foreign countries that are less efficient than those in the former country. The concept of comparative advantage has become one of the most widely accepted doctrines of economics. Theories about the sources of comparative advantage were developed much later by neo-classical theorists who argued that the presence of factors of production in different relative quantities (with a given technology) will lead to comparative advantages. In more recent times, the (neo)classical theories were complemented with work on the effects of international trade under conditions of economies in scale in

\(^\text{28}\) A very readable account is given by Easterly (2001).

\(^\text{29}\) UN Economic and Social Council 2004.
production, on growth effects from learning-by-doing and the possibility that international trade may spur competition and thus provides an incentive for technological innovation. These theories show that international (free) trade increases levels of welfare and produces economic growth, under particular assumptions. The (neo)classical theories assume perfect competition, increasing marginal cost and absence of market failures. The latter makes it possible for the theorists to restrict the tasks of the government to the pure public goods of law and order. The newer theories make assumptions that are closer to the reality of certain industries: falling marginal cost, less than perfect competition and the changeability of technologies. In economic theory, participation in international trade has been considered as a positive contribution to a country’s welfare under most circumstances, as most textbooks in International Economics testify. It seems to be overlooked that many of these textbooks make it clear that the direct effects of trade liberalisation are small in terms of percentage increases of welfare, let alone in increasing economic growth in the long run.

The empirical underpinning of the “engine thesis” also has a long tradition. Alfred Marshall held the opinion that “the causes which determine the economic progress of nations belong to the study of international trade”. (Marshall 1890) Some authors point at the high correlation between economic growth and export growth, others point at the import demand in Europe that brought welfare in countries like Argentina, Australia, Canada and New Zealand. And indeed, it is difficult to mention a country that has experienced a high growth rate over a longer period and has not seen its exports increasing by an even higher growth rate. It would be mistaken, however, to claim that growth of exports and imports will automatically bring economic growth. The causal relationship may also be reversed: economic growth will stimulate openness.

Openness, Geography and Institutions

In the rich recent empirical literature on the causes of economic growth, three lines of thinking can be distinguished (Rodrik c.s., 2002), each putting a particular cause at the top of the list:

1. Geography, determining climate, diseases that constrain human activities, natural resources, cost of transportation and knowledge diffusion, is considered by many authors (among them Sachs, Sachs, 2001) as the main factor on economic development;
2. International trade or integration in the world economy is thought to be the main determinant of economic development by many authors and has held an important place in the policies of the Bretton Woods institutions and figures conspicuously in the officially stated objectives of the EU development policy and the ACP-EU cooperation;
3. Institutions constitute the central force in the third line of thought, which argues that “the rules of the game in a society and their conduciveness to desirable economic behaviour” will largely determine economic development.

It is too simple to ask which of these three factors is the most important one, and to build policy recommendations on that conclusion. The literature has provided us with many theories and empirical studies that show that there is a complex interrelationship between these three factors and economic growth or per capita incomes. Easterly and Levine (2001) find that geography has a significant impact on institutions. Geography may also have a direct impact on income through agricultural productivity, morbidity and the distance to markets. Geography is the only full exogenous factor of the three. Institutions and integration in the
world economy are partly endogenous factors: it cannot be ruled out that rising incomes will cause institutions and integration to change. Thus, these lines of thought have to show the causality of integration and institutions on income, and specify their variables accordingly, in order to rule out reverse causality as much as possible.

This is not the place to review the outcomes of the empirical studies in this field. For present purposes, i.e. to shed some light on the experience of SSA, it is most helpful to present the conclusions of the Rodrik c.s. (2002) paper. This paper relies on specifications and approaches by the three lines of thought that maximize the exogeneity of integration and institution data. By applying these data in an integrated framework, their relative significance can be estimated. This gives striking results: “Most importantly, we find that the quality of institutions trumps everything else. Once institutions are controlled for, integration has no direct effect on incomes, while geography has at best weak direct effects.” As was to be expected, the discussion has not been closed by this paper. In a response to Rodrik c.s., Sachs (2003) used malaria risk as geographical variable and showed that this variable has a significant effect on incomes, as has institutional quality.

It not allowed to infer directly applicable policy recipes from the studies cited. “Economic ideas such as incentives, competition, hard-budget constraints, sound money, fiscal sustainability, property rights do not map directly into institutional forms.” (Rodrik c.s. 2002) A particular set of institutions will not automatically produce a high rate of economic growth in any country. One has to take into account the specific characteristics of a country in terms of history, geography, culture and economic order if one wants to design optimal reform trajectories.

4. Conclusions

Returning to SSA and the Lomé Conventions, the above discussion of the causes of growth allows a number of conclusions. First, integration or trade and aid as such do not figure in the discussion as significant, independent factors of growth. As these have been the main instruments of cooperation under the Lomé Conventions, their relative ineffectiveness is not surprising. This not to say that international trade does not play a role in SSA development. From case studies of successful SSA countries one can draw the conclusion that trade does play a role. Mauritius shifted from a sugar based economy to more diversified manufactured exports by a heterodox policy, adding export processing zones (EPZs) to the existing agriculture and import substituting sectors. The Lomé Convention Sugar Protocol provided a solid base of export earnings for this policy. (Tsikata, 2001) The market access to the EU under the Lomé Convention for manufactured goods played an important role in the success of the EPZs.

The case of Ghana was different. After a period of economic mismanagement, military interventions, pervasive corruption and economic decline, far-reaching reforms were carried out, supported by donors. The reforms included trade liberalisation, fiscal adjustment, devaluation and price control. These were supplemented with supply side policies and large investments in human capital, raising enrolment and literacy rates. NGOs and civil society supplemented state administrative capacity. Economic growth and exports recovered and diversified somewhat although stability of export receipts remained a problem due to terms of trade shocks. (Tsikata, 2001) These two cases illustrate that trade may not be the prime cause of growth. Trade is important once good institutions are in place and trade is necessary for these institutions to be sustainable.

Secondly, the notion that the geographical conditions of SSA condemn large parts of the continent to eternal poverty is unwarranted. Although geographical factors do have an impact on institutional quality, there is no complete determination. Some SSA countries show
that economic development over the long run is possible. In addition to the two cases mentioned above, Botswana is often cited as a case. The country had a per capita income growth of 7.7 per cent over the period 1965 – 1998. The reasons for this performance include the maintenance of law and order, well-managed diamond revenues, efficient bureaucracy, and large public investments in education, health and infrastructure. (Acemoglu c.s. 2003)

Third, the gradual shift of the Conventions into the direction of good governance, rule of law and market oriented reforms is in line with the notion that institutional quality is the most crucial factor for growth. At the same time, the Convention was based on the notions of equality and sovereignty of the partners. The result was, that in many ACP countries - particularly in SSA - the Lomé Convention was not effective in improving the environment for viable private investment in productive activities. The Lomé Conventions insufficiently addressed macro-economic imbalances, low quality of public services and lack of competition. It should be acknowledged that there is a friction between the equality and sovereignty principle of the Conventions and the insight that long-term development requires particular conditions to be fulfilled.

Fourth, donor countries can play a role in starting and sustaining development and poverty reduction. By financing safety nets, investment in education, health and infrastructure, reforms can be more effective and sustainable. Market access can support exports that will emanate from the reformed economy. However, aid and trade preferences can be effective and helpful only if growth-promoting institutions have been introduced. Although donors can give support, this is primarily a task for the country itself.

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