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The Economic Partnership Agreement

between the EU and SADC

Design and Effects

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Abstract

This thesis analyzes the trade, fiscal and development effects of the Interim Economic Partnership Agreement (EPA) between the EU and the member states of the SADC EPA group. The agreement is set to advance the trade relationship between the parties as well as create and facilitate trade in-between the SADC member states. The conclusions of this study are that the trade patterns between the negotiating parties will be affected, as well as trade between the SADC EPA group and trade patterns with the rest of the world (ROW). Positive effects of the agreement are those indicating less expensive imports in the SADC area, but we have also found evidence of trade diversion where exports from the EU increases on the expense of exporters from ROW. Also, the SADC EPA countries will experience losses in tariff revenues due to the 80-85 percent tariff liberalization on imports from the EU.

Key words: Economic integration, Economic Partnership Agreements, EU, SADC

List of Abbreviations

ACP	African, Caribbean and Pacific
AGOA	The African Growth and Opportunity Act
BLNS	Botswana, Lesotho, Namibia and Swaziland
CET	Common External Tariff
CU	Customs Union
EBA	Everything but Arms
EPA	Economic Partnership Agreement
EU	European Union
FTA	Free Trade Area
GATT	General Agreement on Tariffs and Trade
GSP	Generalized System of Preferences
GSP+	Generalized System of Preferences Plus
HS	Harmonized System
LDC	Least Developed Country
MFN	Most Favored Nation
PTA	Preferential Trade Agreement
RIA	Regional Integration Agreement
ROO	Rules of Origin
ROW	Rest of the World
SA	South Africa
SACU	Southern African Customs Union
SADC	Southern African Development Community
SAT	Substantially All Trade
TDCA	Trade, Development and Cooperation Agreement
WTO	World Trade Organization

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1. Introduction

1.1. Background

The Economic Partnership Agreements (EPAs) open up a new chapter in the history of preferential trade agreements between the European countries and the African, Caribbean and Pacific states. These agreements are the successors of the one-way preferences and trade relationship between the European Union (EU) and the ACP countries. Since the World Trade Organization (WTO) no longer accept non-reciprocal preferential trade agreements, an alteration of the regimes governing the trade preferences was necessary. Therefore, in order to secure the preferential treatment on the EU market previously granted the ACP countries, the parties initiated the Economic Partnership Agreements (EPAs) that were to be compatible with the rules of the WTO.

1.2. Objective

In this paper, we aim to analyze the design, structure and the likely outcome of an Economic Partnership Agreement (EPA) between the EU and the six member states of the Southern African Development Community (SADC), Angola, Botswana, Lesotho, Mozambique, Namibia and Swaziland, who collectively negotiate on an interim EPA with the EU. In our analysis we have chosen to foremost focus on the trade and fiscal effects of the agreement, complemented by discussions on impacts on development. We intend to analyze the effects and impacts on SADC EPA economies of the agreement given the theory of economics following the introduction of an FTA.

1.3. Method and Material

In our analysis of the Interim EPA we use theory on static (trade and fiscal) and development effects of FTA. We further analyze the Interim EPA from this theoretical setting and investigate what possible effects it could have on the SADC region and its member states. We also include a discussion on the effects on the rest of the world. To accomplish this we use statistical data from databases and sources we consider trustworthy and commonly used in economic analysis such as this one. We have used data from the WTO and the International Trade Centre, a joint agency of the WTO and the United Nations. The complexity of the choice and interpretation of the data lies in the agreement's constantly changing

conditions as well as in the different configurations of member states within the EPA groups. In order to overcome those obstacles we have chosen to make a selection of data that is compatible with the later form of the EU-SADC Interim EPA.

1.4. Delimitation

The concept of the EPAs is very wide, and many different aspects can be analyzed while referring to the design of the different agreements. The ACP group of states negotiates in different sub-regions and we have chosen to focus on the Southern African Development Community (SADC). In our analysis of the Interim EPA between the EU and the SADC EPA region we limit our discussion to possible trade and fiscal effects with the addition of development effects we have found suitable for the situation. We have chosen not to incorporate the SADC EPA countries' trade agreements with ROW which possibly play an important role in the present and future trade patterns. Furthermore, feasible multilateral trade liberalization in the world, due to trade negotiations within the WTO, will not be discussed further, even though this is an important topic when it comes to effects of economic regional integration.

1.5. Disposition

The thesis opens with an introduction and background to the EU-SADC Economic Partnership Agreement. In this section we explain the conditions leading to the introduction of the EPAs in the Cotonou Agreement between the EU and the ACP countries. Furthermore there is a presentation of the setting in which the Interim EPA of the SADC region is introduced. In Chapter 3, the economic theory of PTAs, foremost FTAs, applicable on the EPAs regarding design and plausible effects, is presented. Moreover, Chapter 4 introduces the Interim EPA between the EU and the SADC EPA group and here we present the parts of the agreement where the parties have come to agreements and which are important for the economic effects following the Interim EPA. Finally, in Chapter 5 we put emphasis on the effects of the Interim EPA followed by an analysis of the trade flows between the SADC EPA group and countries outside the agreement process. In addition, in Chapter 5 we also bring up the possible effects of development we find reasonable regarding the design of the Interim EPA as well as the plausible alternatives to the agreement. Finally, in Chapter 6, we address the conclusions of our analysis and present a section on policy implications.

2. The EU-SADC Economic Partnership Agreements - background

The European Union (EU) and the African, Caribbean and Pacific (ACP) countries have a traditionally long relationship of trade and development policies. Different trade and economic development agreements covering trade and economic development has governed this relationship. In 1975, the first Lomé Convention was signed between EU and the ACP States. This Convention was later followed by three succeeding Conventions; the last one expired in 2000. The precursors to the first Lomé Convention were the Yaoundé Conventions between six European countries and eighteen African countries; the first one signed in 1963.

2.1. The WTO and the Cotonou Agreement

The non-reciprocal trade preferences between the EU and the ACP countries have previously been granted waivers from the rules of the General Agreement on Tariffs and Trade (GATT). In 1995, the World Trade Organization (WTO) replaced the GATT. Thereafter, the pressure on the aforementioned partied increased to develop a WTO-compatible trade regime that would not contradict the rules of the Organization governing preferential trade agreements among member states. The previous EU-ACP trade regime did not comply with either Article XXIV of the GATT/WTO that governs the reciprocal trade agreements among members of the Organization, nor the Enabling clause. The Enabling clause governs the different alternatives for developing countries when creating trade preference schemes. Thus, the last waiver from the rules of the WTO was signed in Doha in 2001, under the condition that the concerned parties agreed to work out a new preference scheme compatible with the GATT/WTO.

Following the pressure from the WTO, the EU and the ACP countries signed the Cotonou Agreement (also known as the "Partnership Agreement") in Cotonou, Benin in 2000. In order to move towards a WTO-compatible trade agreement, the parties committed to further extend and develop the economic relationship. It was concluded that the trade preferences of the Cotonou Agreement were to be followed by Economic Partnership Agreements (EPAs), which were to be in line with the development of the world trading system and the rules of the WTO. The Cotonou Agreement also presented the

fundamental objectives of the EPAs and founded the deeper integration process needed to proceed with the trade preferences granted, ACP exports on the EU market (Cotonou Agreement, 2000).

In order to proceed with making the EU-ACP trade preference scheme WTO-compatible, the ACP countries were divided into seven sub-regional groups. The preference schemes negotiated on among the sub-regional groups and the EU are to be compatible with Article XXIV of the GATT/WTO. This requires a large adjustment of the economic relationship seeing that Article XXIV only enables countries to form preferential trade agreements (PTAs) formed on a reciprocal basis. Moreover, the article allows negotiations of PTAs only under the condition that tariffs on trade and regulations of commerce are to be eliminated on 'substantially all trade' (SAT) (GATT Article XXIV, Paragraph 8b). In addition, any interim agreement that aim to result in a fully established FTA has to include a plan for the liberalization of SAT 'within a reasonable period of time' (GATT Article XXIV, Paragraph 5c).

2.2. The EPAs and SADC

The Cotonou Agreement states that the EPAs were to enter into force by 1 January 2008. This deadline has already passed, and at the time being, has been set at further notice. In Article XXVII of the Agreement it is established that the parties should be as flexible as possible when it comes to deciding the duration of the transition period, designated to remove trade barriers and adjust the markets between the EU and the regional groupings of the ACP States (The Cotonou Agreement, 2000). The EPAs are being negotiated on at the time of writing and interim EPAs are the first stage for future full agreements on reciprocal trade preferences between the EU and the ACP countries. Undoubtedly, the negotiation processes among the ACP regional groupings are very different and the number of signatory countries in every region varies. Originally, the ACP States were divided into six sub-regions, West Africa, Central Africa, Eastern and Southern Africa, Southern African Development Community, Caribbean and Pacific (http://ec.europa.eu/trade).

The Southern African Development Community (SADC) consists of Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe (http://www.sadc.int/). However, the EU-SADC negotiations on an interim and future full EPA do not involve all the members of the Community. The SADC members included in the SADC EPA group were originally set out to be only seven countries, namely Angola, Botswana, Lesotho, Mozambique, Namibia, Swaziland and Tanzania (European Commission, 2005:7). Tanzania is involved in negotiations within the East and Southern African group

and East African Community, thus, they are no longer included in the SADC EPA group (http://ec.europa.eu/trade). Furthermore, South Africa joined the EU-SADC negotiations on an EPA in 2007, although the country already has a signed trade agreement with the EU, referred to as the Trade, Development and Cooperation Agreement (TDCA). Currently three countries, Botswana, Lesotho and Mozambique, have signed the interim EU-SADC EPA (European Commission, EPA Update, 2009). Angola, as a Least Developed Country (LDC) enjoy free access to the EU market though the Everything But Arms (EBA) preference scheme whilst South Africa benefits from the TDCA. Namibia is still deciding on whether or not they are going to sign the interim agreement (European Commission, EPA Update, 2009). All SADC EPA States continue to negotiate on a full economic partnership agreement with the EU, which is why we have decided to include all SADC EPA States in our analysis of the EU-SADC EPA.

Botswana, Lesotho, Namibia, Swaziland and South Africa together constitute the Southern African Customs Union (SACU) (http://www.sacu.int/). Thus, SACU plays an important role in the EU-SADC EPA negotiations. South Africa (SA) is the greatest trade power within the CU, and the SACU countries excluding SA is often referred to as BLNS (Botswana, Lesotho, Namibia and Swaziland). Below, figure 2.1. illustrates the different regional trade agreement constellations of the Eastern and Southern African ACP countries.

Figure 2.1. Regional agreements in Eastern and Southern Africa

The regional arrangements among Eastern and Southern African ACP countries. Tanzania is a part of the SADC but negotiate on an EPA with the EAC. Five out of seven SADC EPA countries are members of the SACU. Source: http://www.comesa.int, http://ec.europa.eu/trade[a]

3. The Economics of Integration and the EPAs

The economic theory of Preferential Trade Agreements (PTAs) explores the effects that occur when countries are integrated through trade agreements. As introduced by Balassa in the 1960s, the process of integration is often described in different stages. The initial step of integration is a free trade area (FTA). The FTA is followed by a customs union (CU). After the CU, common markets are introduced, which is followed by an economic and monetary union. The final step of integration is the implementation of a political union. Instead of regarding these stages as steps in an ascending order, they are useful and can be referred to when analyzing different forms of integration (Senior Nello 2005:3f). In this paper, we will focus our analysis on FTAs.

PTAs such as free trade areas and customs unions are in many aspects similar and aim to remove all barriers on trade between the member countries. However, an FTA differs from a CU seeing that it does not call for the member countries to enforce a common external tariff (CET) policy. All members of an FTA are free to set their own external tariff rates towards the rest of the world (ROW). Furthermore, an FTA includes rules of origin (ROO) which are in place to prevent trade deflection where imports from ROW are being transshipped through the member country with the lowest external tariff to benefit from the differences in tariff rates (Robson, 1998:28). Along with the plausible changes in trade patterns following the formation of the FTA, ROO can affect trade among the signatory member countries and ROW.

3.1. Theoretical framework of an FTA

As initiated by Viner in 1950, the static effects of a PTA concerns trade flows and changes in trade patterns and therefore effect welfare of the countries involved and ROW. Viner used the example of a CU when he described the effects of trade creation and trade diversion. Trade creation is caused by less efficient production in the home country that is being replaced by more efficient production in the partner country, whereas the effect of trade diversion takes place when more efficient and cheaper production, previously imported from a third country/ROW, is replaced by imports from the new partner country (Viner, 1950:43). These theoretical aspects on trade effects are commonly applied on different kinds of trade liberalizing agreements, not solely CUs.

The model is based on a partial equilibrium framework where only one market is illustrated at a time to clarify the potential results of certain economic measures. Furthermore, the FTA does not effect the member countries' *terms of trade* with the ROW (Robson, 1998). The home country is denoted H and the partner country denoted P. For simplification, we assume that the import tariff in country H before integration was so protective that it prevented all imports.

Figure 3.1. illustrates the effects from a two-country standpoint. The demand of country H is D_H and its supply is S_H. The world supply price is assumed to be perfectly elastic and the curve, denoted P_W, is therefore horizontal. Country H will supply 0N and country P NN'. Country P will supply country H at any price above T_P and this may cause indirect trade deflection as it may result in a shortage of supply for the domestic market of country P, which will be compensated for by imports from ROW irrespective of the price on the product produced by country H. It can be seen that the countries have similar demand curves but their efficiency in production gives us different supply curves. Country P has a much more elastic and competitive supply curve, denoted S_P, than country H.

The figure is interpreted as follows; in home country H *area a* represents trade creation, caused by more efficient resource allocation taking place and *area c* the consumer effect expressing larger consumption possibilities. In this case the latter is positive as the formation of the FTA enables reduction in price. Together those effects will outweigh trade diversion, *area b*. The difference between *area c* and the previous custom revenues (LN x $P_W T_H$) that is lost when the FTA is established is a transfer of wealth to consumers and does not necessarily stand for a loss in income. In country P the same amount will be consumed and produced at the same price. Government revenue will increase with area ($P_W T_P$ x L"M), since their production supplied denoted L"M will be exported to H and their domestic demand satisfied by imports from ROW.

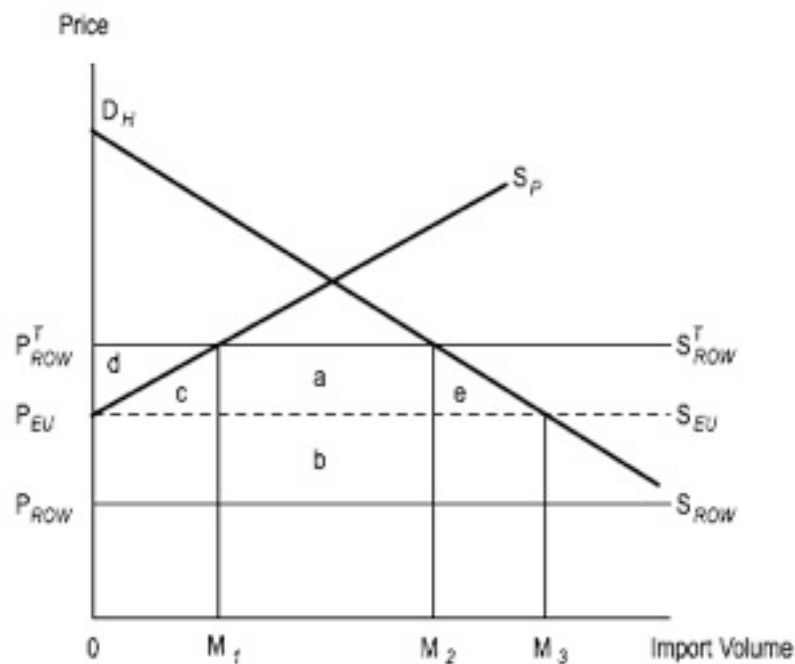**Figure 3.1. Effects of an FTA in the home and partner country**

Effects of an FTA in both member countries, H and P. Source: Robson (1998) figure 2.3.

3.2. Static Effects of an EPA

The Vinerian analysis on statics effects of RIAs can be applied directly on the case of an EPA between the EU and a regional ACP group such as the SADC. Figure 3.2. illustrates the effects of an EPA in a small ACP country with regards to price and import volumes. The small ACP country is part of a regional FTA with other ACP countries who forms an EPA with the EU causing tariff liberalization on all EU products imported by the regional ACP-FTA. Thus $P_{EU} < P_W$ when following the EPA tariff liberalization. More efficient imports from the EU replace less efficient production that was previously imported from the partner country causing trade creation, $0M_1$. Less efficient EU imports replacing imports from ROW leads to trade diversion, M_1M_2. M_2M_3 illustrates the consumption expansion effect in the small ACP country seeing that there are now more goods to consume. In addition, the tariff liberalization causes a decline in government income due to less tariff revenues. This loss is described by areas a+b. Furthermore, the global welfare loss that occurs referring to the trade diversion effects will depend on the efficiency of the producers in the EU. With more efficient EU production, losses of trade diversion will be relatively smaller (Milner et al., 2005:333).

Figure 3.2. Effects of an EPA in a small ACP country

Effects of an EU-ACP regional EPA in a small ACP country illustrating changes in import volumes. Source: Milner et al. (2005) figure 1.

3.2.1 Analysis of Outcome

The overall outcome on welfare, positive, negative or non-existing, caused by the static effects following an introduction of an FTA will further depend on the setting in which the FTA is introduced. A general analysis of the outcome might be misleading but the principles of an FTA can be simplified. The positive effects from introducing an FTA are likely to be increased if the previous tariffs are higher. In addition the FTA will gain from high number of countries joining the agreement as well as the economic size of those countries. Finally, the geographical distance between the member states affects the transport costs and thus the total effects of the FTA. Furthermore, the shape of the economies and their preceding relations affect the outcome. Competitive economies among the member states are preferable as it may advocate specialization and great trade flows as well as established economic relations that are likely to have positive effect on the welfare (Senior Nello, 2005:99).

3.3. Development effects of an FTA

The forming of an FTA introduces new dimensions to integration among the member countries. Those can be referred to as *development-* or *dynamic effects*. We expect those effects to comprise specialization, larger market that opens for better exploitation of economies of scale and technological progress (Senior Nello, 2005:103). *Specialization,* meaning improved location of industry, and

economies of scale defined as the lower production costs per unit resulting from of larger scale of production. The effects on production flows and efficiency is further predicted to be triggered by increased competition, since competition is considered a vital factor for the promotion of restructuring of industry leading to reduced production costs and consumer prices. These effects influence the static effects of an FTA in the long run and are therefore important to acknowledge. The overall welfare effects of a trade liberalizing agreement such as the regional EU-ACP EPAs will cause static as well as development effects and large changes in trade patterns can have positive effects on the dynamics of an PTA.

4. Interim EPA between the EU and SADC

'The Interim Economic Partnership Agreement between the SADC EPA states, on the one part, and the European Community and its Member States, on the other part, also referred to as the Interim EPA. The Interim EPA was signed on September the 19th in 2008, and introduces six objectives which function as fundaments of the commitment made by the concerned parties (Interim EPA, 2008).

The objectives of the Interim EPA are:
- Contribute to the reduction and ultimate eradication of poverty,
- Promote regional integration, economic cooperation and good governance,
- Support the gradual integration of the SADC EPA States into the world economy,
- Progress the SADC EPA States' capacity in trade policy and trade related issues,
- Promote conditions for increased investment and private sector initiatives as well as improve supply capacity, competitiveness and economic growth in the SADC EPA States,
- Support new trade dynamics and strengthen relations between the EU and SADC EPA States on the basis of solidarity and mutual interest (Interim EPA, 2008:Article 1).

The objectives of the Interim EPA are to be achieved by approaching different areas of cooperation. One of those that are closely related to the effects in trade and fiscal policies is the cooperation that is to encompass commodity trade. By the realization of the agreement's intents a new prerequisite for trade between the SADC EPA countries and the EU are set. Trade is to be liberalized between the negotiating parties as well as among the SADC EPA countries. Trade in goods covers the liberalization of tariffs and customs duties, which is aimed at creating a free trade area. In addition, it includes rules of origin and other non-tariff barriers such as quantitative restrictions.

In Article 19 of the Interim EPA the FTA is established. The paragraph expresses the need to liberalize in conformity with the Article XXIV of the GATT/WTO. The Interim EPA does not pronounce the interpretation of the stipulations of the WTO. However, the EU interprets the conditions for liberalization in trade of the Article XXIV of the WTO/GATT to include 90 percent of the total bilateral trade among the members of the FTA (www.acp-eu-trade.org). Furthermore, EU will liberalize nearly 100 percent of their imports from the SADC EPA region (with transition periods for special goods) (Interim EPA, 2008: Article

25), which will enable the SADC EPA group to liberalize only 80-85 percent of their imports from the EU over a 15-year period. 15-20 percent of the goods imported from the EU will not be liberalized under the Interim EPA. The groups of goods excluded from the duty- and quota-free treatments for products originating from the SADC EPA region imported by the EU are usually described as sensitive goods. They include some agricultural products as well as the group defined as "Arms and ammunition, parts and accessories", found in Chapter 93 of the Harmonized System Code (HS Code)[1] (Interim EPA, 2008: Annex II).

In Article 21, the concept of the EU-SADC FTA is deepened and further defined with the addition of ROO. In the agreement it is stated that the ROO are to be reviewed within a time period of three years from the time the Interim EPA is enforced. This Article outlines a simplification and liberalization of ROO that according to theoretical aspects of ROO can have positive impacts on trade flows within the region and relative to ROW.

The liberalization process is also aimed in the intra-SADC EPA region where the FTA is to enable free circulation of goods among the SADC EPA member states. This duty-and tariff-free area is recognized in Article 27 of the Interim EPA, which is in accordance with the SADC Protocol on Trade. The SADC Protocol on Trade was agreed upon in 1996 and establishes a free trade area among all 14 SADC member countries by 2008. The agreement came into effect in 2000 (SADC Protocol on Trade, 1996). Among these countries, the SADC EPA States, as well as South Africa, are included, which is important for the outcome of the Interim EPA between the EU and SADC. The Interim EPA thus affects the trade development among all SADC member states and not solely the SADC countries participating in the EU-SADC EPA negotiations.

The Interim EPA is set out to support the regional integration process within the SADC EPA group. Although, the pace and level of integration is decided on a country basis by the states themselves. The integration process is also to be invoked in conformity with the policies of the SACU agreement on development[2] as well as other preexisting treaties in the region (Interim EPA, 2008: Article 4). The SACU agreement signed in 2002 concludes that SACU members can negotiate and form FTAs with third parties as a bloc (The SACU Agreement, 2002). Therefore, the SACU, with all five member states, play a significant role in the negotiations of the EU-SADC EPA. Moreover, Article 31 of the Interim EPA

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[1] The entire HS Code can be found at http://www.foreign-trade.com/reference/hscode.htm

[2] The SACU Agreement was signed on 21 October 2002 (Interim EPA, 2008: Article 4)

states that the agreement may not prevent the establishment of other agreements that promote integration as long as they do not interfere with the trade conditions of the Interim EPA. Considering the nature of the CU, this can be critical to the SACU Agreement. South Africa is the greatest trade power in the region and has, as previously mentioned, its own trade agreement with the EU, TDCA, with a different trade protocol than the previous Lomé/Cotonou preferences granted the ACP countries. With the Interim EPA the relationship between the regions will be further deepened, i.e. the different parties within the SADC EPA group will be closer linked to the same trade protocol with the EU than ever previously observed (Walker, 2009:3).

The Interim EPA issues facilitation of the technical barriers to trade as a concern for regional integration (Interim EPA, 2008: Article 51). Facilitation of trade in goods, by integrating and harmonizing the processes and standards, are objectives that are issued in Chapter 8 of the Interim EPA. The agreement further assesses the value of developing a common approach on the regulatory performance, dealing for example with issues on transparency, common standards and market surveillance.

The elimination of import tariffs on products from the EU, as well as from intra-SADC trade are assumed to have an affect on the SADC EPA States and is therefore dealt with as a delicate matter in the Interim EPA. In Article 17, cooperation in fiscal adjustment, subjects the possible losses in fiscal revenues as a result of the trade reforms. The parties have agreed on that a certain level of support for fiscal reforms are to be included by the cooperation which will assist the SADC EPA countries in dealing with fiscal difficulties.

The Interim EPA between the EU and SADC is an important step towards a full EPA between the regions. Considering it is an interim agreement (i.e. working as a full agreement until future agreements are met) there are certain areas of cooperation which are still to be covered by the negotiations. Therefore, the total outcome and plausible economic effects are difficult to predict. So far, the parties have agreed to postpone specific areas of the future full EPA due to the complexity of the cooperation. The main topics of the full EPA are the development and cooperation in the service sector and the provisions on finance and investment. Furthermore, there are negotiations on cooperation in the areas of competition and public procurement (Interim EPA, 2008:Article 11). During the negotiation process, issues of concern have been raised by the different parties and functioning internal relationships within the SADC region and SACU are essential for a future full EPA.
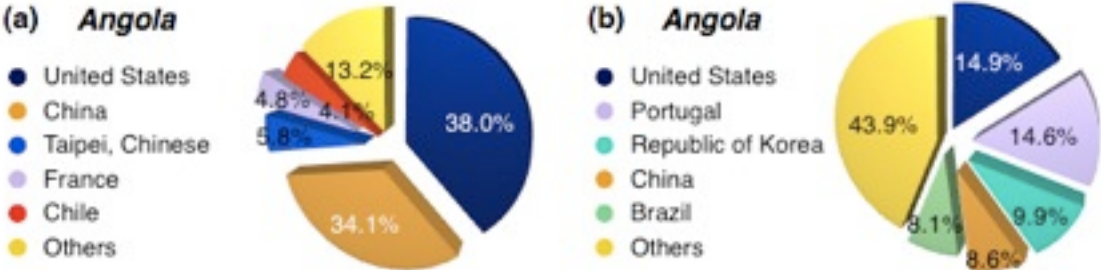
5. Effects of an EU-SADC EPA

The Economic Partnership Agreement between the EU and SADC will have economic effects on all the parties involved. These changes are often described with changes in trade between the EU and SADC alone but nevertheless, it is important to also acknowledge the effects on the intra-SADC development and the plausible effects on the rest of the world. In this section we put emphasis the effects of the EU-SADC Interim EPA analyzing trade flows and tariff data among the parties involved in the negotiations, as well as trade flows between the SADC EPA countries and countries outside the agreement process. Furthermore, we acknowledge the fiscal and development effects of the trade liberalization.

5.1. Trade Patterns of the SADC EPA States

The import and export patterns of the SADC EPA countries are diverse and this fact is important to acknowledge when analyzing the effects of an EU-SADC EPA. Although there are similarities such as low levels of export diversification, we can also observe several differences regarding export and import patterns of the SADC EPA States. Angola's exports and imports are described in figure 5.1. Figures 5.2. and 5.3. show the exports and imports by main destinations and origins for all SADC EPA States except Angola.

Figure 5.1. Breakdown of total exports and imports by main destinations and origins

Breakdown of Angola's total exports and imports by main destinations and origins 2006. Trade with the EU is presented on a country basis. Source: ITC (2006) Trade Competitiveness Map.

Figure 5.2. Breakdown of total exports by main destinations

(a) Botswana

- EU (27)
- South Africa
- Norway
- Zimbabwe
- China
- Others

67.7%, 10.2%, 8.1%, 7.3%, 1.9%, 4.8%

(b) Lesotho

- United States
- South Africa
- EU (27)
- Switzerland
- Canada
- Others

68.5%, 17.6%, 9.9%, 2.8%, 0.6%, 0.6%

(c) Mozambique

- South Africa
- EU (27)
- Zimbabwe
- China
- Kenya
- Unspecified destinations
- Others

65.7%, 17.8%, 6.1%, 4.7%, 3.0%, 1.8%, 0.9%

(d) Namibia

- EU (27)
- South Africa
- Angola
- Canada
- China
- Others

44.7%, 29.0%, 11.9%, 6.5%, 4.9%, 3.0%

(e) South Africa

- EU (27)
- United States
- Japan
- China
- Zambia
- Others

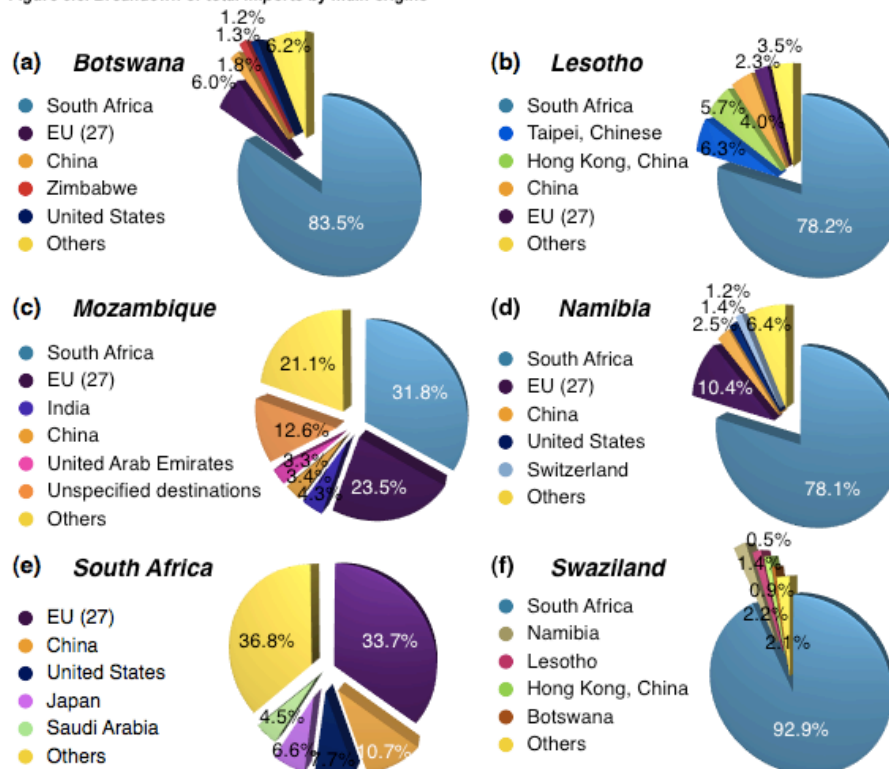35.5%, 33.0%, 11.8%, 11.0%, 6.5%, 2.2%

(f) Swaziland

- South Africa
- Botswana
- EU (27)
- United States
- Japan
- Others

45.2%, 31.6%, 14.4%, 3.2%, 3.0%, 2.6%

Breakdown of total exports by main destinations 2007. Data not available (n.a.) for Angola. Unspecified destinations are presented when at least one of the shares are greater than the share of the fifth main destination. Re-imports are included. Source: WTO (2009) Statistics database.

Figure 5.3. Breakdown of total imports by main origins

(a) Botswana

- South Africa
- EU (27)
- China
- Zimbabwe
- United States
- Others

83.5%, 6.2%, 6.0%, 1.8%, 1.3%, 1.2%

(b) Lesotho

- South Africa
- Taipei, Chinese
- Hong Kong, China
- China
- EU (27)
- Others

78.2%, 6.3%, 5.7%, 4.0%, 3.5%, 2.3%

(c) Mozambique

- South Africa
- EU (27)
- India
- China
- United Arab Emirates
- Unspecified destinations
- Others

31.8%, 23.5%, 21.1%, 12.6%, 3.3%, 3.4%, 4.3%

(d) Namibia

- South Africa
- EU (27)
- China
- United States
- Switzerland
- Others

78.1%, 10.4%, 6.4%, 2.5%, 1.4%, 1.2%

(e) South Africa

- EU (27)
- China
- United States
- Japan
- Saudi Arabia
- Others

36.8%, 33.7%, 10.7%, 6.6%, 5.7%, 4.5%

(f) Swaziland

- South Africa
- Namibia
- Lesotho
- Hong Kong, China
- Botswana
- Others

92.9%, 2.2%, 2.1%, 1.4%, 0.9%, 0.5%

Breakdown of total imports by main origins 2007. Data not available (n.a.) for Angola. Unspecified origins are presented when at least one of the shares are greater than the share of the fifth main origin. Re-imports are included. Source: WTO (2009) Statistics database.

5.1.1. Angola

As we can see in figure 5.1. (a), Angola exports a large share of their commodities to the United States, 38 percent, which indicate that Angola's export sector is rather dependent on the US. Furthermore, 34.1 percent are destined for the Chinese market whilst Chinese Taipei receives 5.8 percent. The forth largest export destination is France with 4.8 percent of the total share. It is difficult to estimate the total share for the EU, but the US and China together represent a large majority of the exports of Angola, whereas the EU plays a minor role. None of their partners in the SADC region are among their most important export partners. As illustrated by table 5.1. the country has a very low level of diversification in their export sector. Nearly 98 percent of Angola's total exports belong to the Mineral fuels, oils, distillation products etc. where petroleum is the single most important export product (WTO, 2006: Part 2) Moreover, the second largest export industry is Pearls, precious stones, metals, coins etc., which represents 1.7 percent. These numbers show that country's export sector is highly dependent on natural resources. This is also illustrated by Figure 1 in Appendix I.

Table 5.1. Angola Top 5 export industries (HS) 2006		
HS Group name (no.)	Exports value (USD thousands)	Exports as a share of total exports (%)
Mineral fuels, oils, distillation products etc. (27)	31,370,117	97.8727
Pearls, precious stones, metals, coins, etc. (71)	555,395	1.7328
Fish, crustaceans, molluscs, aquatic invertebrates nes. (03)	28,088	0.0876
Salt, sulphur, earth, stone, plaster, lime and cement (25)	20,306	0.0634
Commodities not elsewhere specified (99)	18,977	0.0592

Source: ITC (2008) Trade Competitiveness Map.

Similar to the country's export patterns, the biggest share of imports originates from the United States. However, the total share of imports sources from the US is smaller compared to exports measuring only 14.9 percent. Portugal, with 14.6 percent, is the second single most important import partner and nearly equals the share sourced from the US. 9.9 percent origins from the Republic of Korea, 8.6 percent from China and the fifth largest import partner is Brazil who accounts for 8.1 percent of total imports. These figures are more diverse compared with the exports, but the US and China play big parts when if comes to foreign trade in Angola. Yet, we have reason to believe that the total share of imports from the EU is larger than the Portuguese share. In similarity with the export sector, the country does not import any essential parts of their commodities from their SADC partners, a fact that is in accordance with the conclusions made on the export sector. Compared with the export sector, Angola's imports are more diverse. This is presented in table 5.2. where we can see that nearly 16 percent of the country's imports are from the Boilers, machinery: nuclear reactors etc. industry. The four remaining import industries represent from approximately 8.5 to 9.6 percent as seen in table 5.2.

Table 5.2. Angola Top 5 import industries (HS) 2006

HS Group name (no.)	Imports value (USD thousands)	Imports as a share of total imports (%)
Boilers, machinery; nuclear reactors etc. (84)	1,745,705	16.8694
Vehicles other than railway, tramway (87)	995,441	9.6193
Ships, boats and other floating structures (89)	950,056	9.1808
Electrical, electronic equipment (85)	889,249	8.5932
Aircraft, spacecraft, and parts thereof (88)	873,498	8.4409

Source: ITC (2008) Trade Competitiveness Map.

5.1.2. Botswana

Figure 5.2. (a) illustrates the large share of Botswana's export commodities destined for the EU, 67.6 percent. Aside from the EU as the country's main export destination, South Africa as well as Norway and Zimbabwe are important importers of goods from Botswana. A small share of Botswana's exports is destined for the Chinese market, 1.8 percent and Zimbabwe receives 1.3 percent. This gives us an idea of the importance of the SADC partners referring to the export sector since South Africa is a very important trade partner. Although, SA and Zimbabwe are the only partner countries mentioned among the top 5 export partners and Zimbabwe is far from the level of SA. Furthermore, as can be seen in table 5.3. a large share of the exports sourced from Botswana are centralized around one industry Pearls, precious stones, metals, coins etc. stands for nearly 75 percent of the country's total exports. The second largest export industry is Copper and articles thereof which represents almost 14 percent of the total exports of Botswana. Industries such as Articles of apparel, accessories, knit or crochet, Meat and edible meat offal and Ores, slag and ash are all important exports of Botswana, but they only represent one to two per cent of the country's total exports. As seen in figure 1 (Appendix I) the country exports mainly manufactures. However, the country's dependence on its natural resources is very high.

Table 5.3. Botswana Top 5 export industries (HS) 2006

HS Group name (no.)	Exports value (USD thousands)	Exports as a share of total exports (%)
Pearls, precious stones, metals, coins, etc. (71)	3,350,899	74.3623
Copper and articles thereof (74)	619,782	13.7540
Articles of apparel, accessories, knit or crochet (61)	93,557	2.0762
Meat and edible meat offal (02)	81,365	1.8056
Ores, slag and ash (26)	57,776	1.2822

Source: ITC (2008) Trade Competitiveness Map.

Figure 5.3. (a) illustrates the SADC EPA countries' import patterns, which shows that Botswana imports a great majority of their commodities from South Africa, 83.5 percent to be precise. The dependence on South Africa when it comes to imports, illustrates a strong relationship between the neighboring

countries. In addition, the EU is an important import origin for the Botswana market and stands for 6 percent of the country's total imports. Other essential trade partners are China, Zimbabwe and the United States, though their share of the total imports only measure between one and two percent. As described in the last section, the only two SADC partners positioned among the top 5 import partners are SA and Zimbabwe, where SA is the dominant of the two. There is no evidence of intensive trade with the other SADC countries. Table 5.4. shows that Botswana imports goods in the Mineral fuel, oils, distillation products HS group measuring roughly 17 percent of the total imports. The second most important import industry is Boilers, machinery; nuclear reactors etc. that stands for about 10.2 percent of all goods imported in the country.

Table 5.4. Botswana Top 5 import industries (HS) 2006		
HS Group name (no.)	Imports value (USD thousands)	Imports as a share of total imports (%)
Mineral fuels, oils, distillation products etc. (27)	525,882	17.2234
Boilers, machinery; nuclear reactors etc. (84)	312,145	10.2232
Vehicles other than railway, tramway (87)	275,375	9.0189
Electrical, electronic equipment (85)	198,870	6.5133
Articles of iron or steel (73)	148,877	4.8759
Source: ITC (2008) Trade Competitiveness Map.		

5.1.3. Lesotho

Illustrated by Figure 5.2. (b) Lesotho exports a large share of their total exports to the United States. Almost 69 percent of the country's total exports are destined for the US market. Their second largest export destination is South Africa since approximately 18 percent of Lesotho's total exports are destined there. Other important export destinations are the EU, Switzerland and Canada who stand for 9.9, 2.8 and 0.6 percent respectively. This shows us that the SADC countries, exception SA, do not have large parts in the export trade of Lesotho. Table 5.5. shows that the country first and foremost exports Articles of apparel, accessories, knit crochet, and the industry stands for almost 50 percent of all of the country's total exports. However, the second largest export industry is Articles of apparel, accessories, not knit or crochet, which is rather similar to the most important industry. The second group (62) represents 29.4 percent of the total exports of Lesotho, which shows that the country's export industry is highly dependent on textiles and articles thereof. This is further strengthened by the forth largest export industry, Cotton (52). The third most essential export commodity group is Pearls, precious stones, metals, coins, etc, which almost 19 percent of the total exports.

Table 5.5. Lesotho Top 5 export industries (HS) 2006

HS Group name (no.)	Exports value (USD thousands)	Exports as a share of total exports (%)
Articles of apparel, accessories, knit crochet (61)	262,723	49.6880
Articles of apparel, accessories, not knit or crochet (62)	155,659	29.4393
Pearls, precious stones, metals, coins, etc. (71)	97,770	18.4910
Cotton (52)	6,050	1.1442
Stone, plaster, cement, asbestos, mica etc articles (68)	1,538	0.2909

Source: ITC (2008) Trade Competitiveness Map.

The country's import sector is highly dependent on South Africa and as Figure 5.3. (b) shows, about 78 percent of Lesotho's total imports source from their neighbor. Furthermore, Lesotho imports a large share of goods from Chinese Taipei and Hong Kong, China as well as mainland China. They represent 6.3, 5.7 and 4 percent of Lesotho's total imports, whereas the EU only measures 2.3 percent. SA plays a dominant role in Lesotho's imports, but with this exception, the rest of the SADC partners are not mentioned among the top 5 import sources. Table 5.6. illustrates the import patterns of Lesotho by main industries. Here, we can see that the country imports mainly Knitted or crocheted fabric. This industry group is the single largest when the import sector is analyzed with approximately 41 percent of all goods imported in the country. Moreover, Electrical, electronic equipment and Cotton also represent an essential share of the imports with about 14 and 11.5 percent of the total imports, respectively. Here, we can see the significance of the textile sector in Lesotho since Knits and Cotton are among the top three import industries. Also, Boilers, machinery; nuclear reactors etc. and Commodities not elsewhere specified stands for about 6 and 3 percent, respectively.

Table 5.6. Lesotho Top 5 import industries (HS) 2006

HS Group name (no.)	Imports value (USD thousands)	Imports as a share of total imports (%)
Knitted or crocheted fabric (60)	108,353	41.3931
Electrical, electronic equipment (85)	36,708	14.0232
Cotton (52)	30,177	11.5282
Boilers, machinery; nuclear reactors etc. (84)	15,458	5.9053
Commodities not elsewhere specified (99)	7,294	2.7865

Source: ITC (2008) Trade Competitiveness Map.

5.1.4. Mozambique

When it comes to Mozambique, Figure 5.2. (c) illustrates that South Africa is an important export destination since the country exports about 18 percent of their total exports to their neighbor country. However, the largest share of exports is specified as Unspecified destinations whereas none of these destinations solely are larger than the other five in the figure. The second single most important export destination is the EU, which receives for 6.1 percent of Mozambique's total exported commodities.

Aside from South Africa and the EU, Mozambique exports 3 per cent of total exports to Zimbabwe, 1.8 percent to China and approximately 1 percent to Kenya. Except for SA and Zimbabwe the country does not export significant shares to the rest of the SADC. As table 5.7. illustrates, goods in the Aluminum and articles thereof sector is the single most important export products for Mozambique. The country relays a majority of their exports on this sector seeing that approximately 60 percent of all exported commodities origins from this natural resource. Moreover the second most essential export sector in Mozambique is Mineral fuels, oils, distillation products etc. whereas this further emphasized the country's dependence on natural resources when it comes to exports. Mineral fuels, oils, distillation products etc. represents almost 15 percent of the country's total exports.

Table 5.7. Mozambique Top 5 export industries (HS) 2006		
HS Group name (no.)	Exports value (USD thousands)	Exports as a share of total exports (%)
Aluminum and articles thereof (27)	1,403,704	58.9511
Mineral fuels, oils, distillation products etc. (27)	349,131	14.6624
Tobacco and manufactured tobacco substitutes (24)	110,369	4.6352
Fish, crustaceans, mollusks, aquatic invertebrates nes. (03)	96,627	4.0580
Sugars and sugar confectionary (17)	84,710	3.5576
Source: ITC (2008) Trade Competitiveness Map.		

Figure 5.3. (c) illustrates Mozambique's main import partners. The first and foremost important import partner is South Africa, which is the source of 31.8 percent of Mozambique's import. Secondly, the EU represents a 23.5 percent share of total import. Furthermore, Mozambique imports approximately 4.3 percent from India, 3.4 percent from China and 3.3 percent from the United Arab Emirates. Similar to the other SADC EPA States, Mozambique does not have significant shares of imports from the SADC partners. The only one listed on the top 5 list is SA. In Table 5.8. we can see that the import sector is dominated by Commodities not elsewhere specified, representing about 19.7 percent of imports as a share of total imports. The second single most important imported group of goods is Mineral fuels, oils, distillation products etc., accounting for approximately 17.0 percent. Other essential import industries are Vehicles other than railway, tramway, Boilers, machinery; nuclear reactors etc. and Cereals with about 9.7, 9.0 and 6.3 percent respectively.

5.8. Mozambique Top 5 import industries (HS) 2006		
HS Group name (no.)	Imports value (USD thousands)	Imports as a share of total imports (%)
Commodities not elsewhere specified (99)	564,192	19.6632
Mineral fuels, oils, distillation products etc. (27)	487,341	16.9848
Vehicles other than railway, tramway (87)	277,922	9.6861
Boilers, machinery; nuclear reactors etc. (84)	258,296	9.0021
Cereals (10)	179,540	6.2573
Source: ITC (2008) Trade Competitiveness Map.		

5.1.5. Namibia

A large share, 44.7 percent, of Namibia's export is destined to the EU as can be seen in Figure 5.2. (d). The second largest export partner is SA and they receive 29.0 percent of Namibia's export commodities. 6.5 percent of Namibia's export is destined for Angola. Other major export destinations are Canada and China, accounting for 4.9 and 3.0 percent respectively. For Namibia, the exports to other SADC countries are limited, even though SA and Angola are among the top 5 export destinations. SA dominates the exports towards the rest of SADC since Angola only receives 6.5 percent. The dominating export commodity of Namibia is from the HS group (71) Pearls, precious stones, metal, coins etc. that accounts for 30.4 percent of total export, illustrated by Table 5.9. The second largest share of total export is Fish, crustaceans, mollusks and aquatic invertebrates nes. which represents 12.7 percent followed by Zinc and articles there of counting for 12.0 percent of total exports. This illustrates that the country's export sector is dependent on primary and intermediate goods (ITC, 2008). Moreover, Printed books, newspapers, pictures, etc. and Ores, slag and ash represent 8.7 and 5.4 percent share of Namibia's total exports.

Table 5.9. Namibia Top 5 export industries (HS) 2006		
HS Group name (no.)	*Exports value (USD thousands)*	*Exports as a share of total exports (%)*
Pearls, precious stones, metals, coins, etc. (71)	1,026,866	30.4290
Fish, crustaceans, mollusks, aquatic invertebrates nes. (03)	429,144	12.7168
Zinc and articles thereof (79)	404,220	11.9782
Printed books, newspapers, pictures, etc. (49)	292,597	8.6705
Ores, slag and ash (26)	182,064	5.3951
Source: ITC (2008) Trade Competitiveness Map.		

In a breakdown of Namibia's import sources in Figure 5.3. (d) it can be seen that SA is Namibia's foremost important source of imports. 78.1 percent origins from the neighbor country. On second place, with a share of 10.4 percent, is the EU, followed by China, 2.5, United States, 1.4 and Switzerland, 1.2 percent. We conclude that imports from the rest of SADC are less important for Namibia and only SA are large enough to make the top 5 list of import origins. Table 5.10. shows that it is manufactured goods that dominate Namibia's import sector. Vehicles other than railway, tramway is the most important import commodity for Namibia, accounting for 15.1 percent share of total import followed by Boilers, machinery; nuclear reactors etc., 12.1 percent and Electrical, electronic equipment, 8.4 percent. Moreover, Articles of iron or steel and Pharmaceutical products, 4.5 and 3.3 percent respectively, qualify in top five import products.

Table 5.10. Namibia Top 5 import industries (HS) 2006

HS Group name (no.)	Imports value (USD thousands)	Imports as a share of total imports (%)
Vehicles other than railway, tramway (87)	420,996	15.0516
Boilers, machinery; nuclear reactors etc. (84)	337,670	12.0725
Electrical, electronic equipment (85)	235,057	8.4038
Articles of iron or steel (73)	126,153	4.5103
Pharmaceutical products (30)	92,494	3.3069

Source: ITC (2008) Trade Competitiveness Map.

5.1.6. South Africa

Figure 5.2. (e) illustrating a breakdown of South Africa's main export destinations shows that the EU receives a third of South Africa's exports, 33.0 percent to be exact. This is a feasible effect of the TDCA between South Africa and the EU. Other major export destinations are the United States, Japan, China and Zambia accounting for 11.8, 11.0, 6.5 and 2.2 percent respectively. Zambia is a member of SADC which indicates that some intra-SADC trade is important for SA. Main groups of commodities exported are, as illustrated in Table 5.11. products from a mix of different process stages. However, the export sector is dominated by natural resources such as Pearls, precious stones, metals, coins, etc., Iron and steel and Mineral fuels, oils, distillation products etc. which represent approximately 40 percent of South Africa's export and stand for a 20.7, 10.5 and 9.6 percent share if presented separately. Other important export commodities are Boilers, machinery; nuclear reactors, etc. and Vehicles other than railway, tramway account for 8.9 and 8.8 percent respectively. In Appendix I, Figure 1, we conclude that the country's exports are mainly manufactures and fuels and mining products.

Table 5.11. South Africa Top 5 export industries (HS) 2006

HS Group name (no.)	Exports value (USD thousands)	Exports as a share of total exports (%)
Pearls, precious stones, metals, coins, etc. (71)	11,002,231	20.6926
Iron and steel (72)	5,599,595	10.5315
Mineral fuels, oils, distillation products etc. (27)	5,093,343	9.5794
Boilers, machinery; nuclear reactors, etc. (84)	4,668,559	8.7805
Vehicles other than railway, tramway (87)	4,665,092	8.7739

Source: ITC (2008) Trade Competitiveness Map.

South Africa's main sources of imports are somewhat similar to the export patterns. This is illustrated in Figure 5.3. (e). It can be seen that SA has a strong relationship with the EU, 33.7 percent of import origins from the EU. Other essential partners are China, United States, Japan and Saudi Arabia with about 10.7, 7.7, 6.6 and 4.5 percent respectively. Table 5.12. illustrates the import patterns of SA by main industries. Mineral fuels, oils, distillation products etc. and Boilers, machinery; nuclear reactors etc. are the two most important product groups of import accounting for approximately 18.3 and 16.2 percent

respectively. Here, we can see a connection between the export and import sector where Mineral fuels etc. also represent an essential part. Other key import industries are Electrical, electronic equipment, Vehicles other than railway, tramway and commodities not elsewhere specified with about 10.0, 9.9 and 7.7 percent share of total import respectively.

Table 5.12. South Africa Top 5 import industries (HS) 2006

HS Group name (no.)	Imports value (USD thousands)	Imports as a share of total imports (%)
Mineral fuels, oils, distillation products etc. (27)	12,678,214	18.3251
Boilers, machinery; nuclear reactors etc. (84)	11,181,907	16.1624
Electrical, electronic equipment (85)	6,893,036	9.9632
Vehicles other than railway, tramway (87)	6,816,040	9.8519
Commodities not elsewhere specified (99)	5,333,109	7.7085

Source: ITC (2008) Trade Competitiveness Map.

5.1.7. Swaziland

Figure 5.2. (f) shows that Swaziland's first and foremost important export partner is found within the SADC group given the dominance of South Africa who receives a 45.2 percent share of total export followed by the 31.6 percent destined for Botswana. The third most important export partner is the EU receiving 14.4 percent of Swaziland's exports and other main export partners are the United States and Japan where 3.2 and 2.6 percent of the exports are destined. The dominating export commodity is Sugars and sugar confectionary accounting for 16.8 percent of Swaziland's exports. As can be seen in Table 5.13. there are only minor differences in the percentage share of the total exports. Articles of apparel, accessories, knit or crochet as well as Articles of apparel, accessories, not knit or crochet accounts for 9.6 and 8.8 percent respectively. Essential oils, perfumes, cosmetics, toiletries and Boilers, machinery; nuclear reactors, etc. represents approximately 9.5 percent each of total export. Those product groups are represented in Swaziland's top 5 import commodities as well. However, as we have chosen to present the statistics from the main HS groups, detailed product-information is lost and the exports commodities are supposedly manufactured goods produced based on the imported products. This is backed by figure 1 in Appendix I where manufactures represent approximately 70 percent of the country's total exports.

Table 5.13. Swaziland Top 5 export industries (HS) 2006

HS Group name (no.)	Exports value (USD thousands)	Exports as a share of total exports (%)
Sugars and sugar confectionary (17)	130,256	16.7521
Articles of apparel, accessories, knit or crochet (61)	74,456	9.5757
Essential oils, perfumes, cosmetics, toiletries (33)	74,129	9.5337
Boilers, machinery; nuclear reactors, etc. (84)	73,597	9.4653
Articles of apparel, accessories, not knit or crochet (62)	68,343	8.7895

Source: ITC (2008) Trade Competitiveness Map.

The SADC countries, as illustrated in Figure 5.3. (f), dominate Swaziland's import source. A great majority of the commodities, 92.9 percent, are imported from South Africa. Other sources of import are Namibia, Lesotho, Hong Kong (China) and Botswana, representing 2.2, 1.4, 0.9 and 0.5 percent respectively. Swaziland's top 5 import industries are listed in Table 5.14 where the most important HS product group is Knitted or crocheted fabric, representing 14.6 percent share of total import. Moreover there are Boilers, machinery; nuclear reactor etc., 11.8 percent, Electrical, electronic equipment, 10.9 percent and Essential oils, perfumes, cosmetics, toiletries, 10.1 percent. Further there is Vehicles other than railway, tramway representing a 5.0 percent share of total imports.

Table 5.14. Swaziland Top 5 import industries (HS) 2006		
HS Group name (no.)	*Imports value (USD thousands)*	*Imports as a share of total imports (%)*
Knitted or crocheted fabric (60)	23,549	14.5711
Boilers, machinery; nuclear reactors etc. (84)	19,035	11.7781
Electrical, electronic equipment (85)	17,658	10.9260
Essential oils, perfumes, cosmetics, toiletries	16,371	10.1297
Vehicles other than railway, tramway (87)	8,117	5.0225
Source: ITC (2008) Trade Competitiveness Map.		

5.2. Effects on the EU-SADC Trade

As presented in the previous section, the SADC EPA countries are very dependent on their exports and import patterns with the European Union. However, this relationship is asymmetrical whereas the EU's trade patterns do not illustrate great shares of exports and imports from and to the SADC EPA states (WTO, 2009, Trade Profile EU (27)). This relationship is important to acknowledge when analyzing the trade effects of the EU-SADC EPA.

From the trade data presented in the previous section it can be seen that the SADC EPA states' dependence on EU for export varies. In the breakdown of main destinations of exports for the SADC EPA states it is established that the EU constitutes an important share of the export for Botswana and Namibia with 67.7 and 44.7 percent respectively. However, the EU is not first place export partner for all SADC EPA states. For countries such as Lesotho and Mozambique the EU comprises only a minor share of the countries' total exports. Illustrated in Figure 5.2. this is somewhat true for Angola as well who exports 4.8. percent of total exports to France, although we have reason to believe that this share is higher for the EU's total share of Angola's exports. This indicates that the effect of the EPA will vary in-

between the states given that there is a prior interchange of goods. We do not expect the overall trade from SADC to the EU to increase extensively after the introduction of the Interim EPA, as there have been preferential trade agreements for ACP countries' exports to the EU for a long period of time. However, minor differences are to be expected as an effect of the Interim EPA especially in countries with a dominating exports destined for the EU. As the Interim EPA introduces a complete liberalization of trade including commodities previously protected because of their sensitive nature, an increase in export is to be expected. Nevertheless, in the case of countries with prior small shares of exports destined for the EU we do not expect a large increase in export volumes, as there is no extensive demand on commodities from those countries. There is however a large demand for keeping the previous preferential access to the EU market among the SADC EPA countries so one indirect effect of the agreement would therefore be that the exports levels stay roughly the same. One of the major concerns of the negotiating parties is for the trade between the parties not to decline (European Commission, EPA Update, 2009).

When reviewing the reverse relationship between the EU and the SADC EPA states, we find that there are important trade patterns indicating plausible effects on EU exports to the SADC EPA region following the 80-85 percent liberalization on SADC EPA States' tariffs on EU imports. The SADC EPA countries import significant shares of their total imports from the EU, whereas the figures varies in-between the states. For the countries Mozambique, Namibia and Botswana, where imports from the EU are valuable, we expect EU producers to increase their exports since they already hold important market shares. The initial levels of tariffs affect the scale of the increase whereas we believe that the largest increase will be seen in Mozambique due to their, on-average, higher levels of tariffs on non-agricultural goods (see table 5.4.). The commodities dominating import for those countries are Mineral, fuels, oils, distillation products etc. (27), Vehicles other than railway, tramway (87) and in the case of Mozambique, Commodities not elsewhere specified (99) as described in section 5.1. Most likely it is those industry groups that are principally affected when trade increases. An increase of imports from the EU is most likely to be the case in Angola as well considering the country's high level of imports from Portugal. Another reason to consider an increase in Angola's imports from the EU is based on the fact that the Portuguese share of total imports does not represent the total EU area and as described in the previous section, Angola's imports mainly consists of Boilers, machinery; nuclear reactors etc. (84,) specified as manufactures, which is the EU's main export commodity group (WTO, 2009, Trade Profiles EU (27)). However, one should bear in mind that Angola is an LDC-country with a specific trade pattern and has therefore enjoyed other privileges than the rest of the SADC EPA countries, which may affect

the Interim EPA differently than the other countries. On average, Angola's tariffs on non-agricultural products are lower that the rest of the SADC EPA members. Thus, this indicates a smaller change in imports from the EU is to be expected. However, the differences in tariffs are very small, and could therefore be considered unimportant. Furthermore, the effect is expected to be less extensive in Swaziland and Lesotho as their import from the EU is a minor share of total import as described in section 5.5. We do however expect a rise in import volumes sourced from the EU, possibly as a result of reduced dependence on SA imports when trade between the EU and SADC EPA is liberalized.

5.3. Effects on the Intra-SADC Trade

From the trade analysis previously in this chapter we recognize that the trade relationship in-between the SADC EPA States is less developed compared with the countries' trade flows with the EU and the rest of the world. Considering the low levels of intra-trade within the SADC region, we expect the Interim EPA between the EU and SADC to affect this relationship. As concluded in the previous section, we expect the trade from the EU to increase due to tariff liberalization in the SADC EPA countries. This will cause the intra-SADC trade patterns to change.

South Africa is the dominant trade power in the region and an essential part of the trade taking place within the SADC area involves South Africa. This indicates that the Interim EPA most likely will lead to increased EU exports on the expense of the South African exporters. As described in section 5.1. all SADC EPA States, with the exception of Angola, import a majority of their commodities from South Africa. For the countries Botswana, Lesotho, Namibia and Swaziland (BLNS) it is feasible that EU imports will out-weight South African imports due to the Interim EPA. Would this be the case, BLNS would benefit form the lower prices on imports and therefore experience the benefits of trade creation. In general the countries' imports large levels of goods from the industries Boilers, machinery; nuclear reactors etc. (84), Vehicles other than railway, tramway (87) and Electrical, electronic equipment (85), which indicate that the SA exports to these countries can be considered threatened by the EU seeing that the EU exports more advanced manufactures rather than primary goods and agricultural products (WTO, 2009, Trade Profiles EU(27)). This is also in line with the wishes of BLNS since they have a desire to reduce their dependence on trade with SA (Draper & Khumalo, 2009:4). Despite the fact that BLNS are rather similar when it comes to trade effects of the Interim EPA, we do expect to observe certain, although relatively small, differences followed a closer breakdown of the countries' trade patterns. Botswana imports most of their products within the Mineral, fuels, oils, distillation products etc. (27) industry group and Lesotho is more dependent on their textile industry. Namibia imports mostly

Vehicles other than railway, tramway (87) and Swaziland imports Knitted or crocheted fabric (60). Despite this potential evidence on reduced importance of SA, the figures on SA dominance in the region indicate that the relationship within the CU is very deep and will thus not be affected in a significantly notable way. The situation is similar for Mozambique, considering the country's deep links with SA. Their imports are expected to be affected by the trade liberalization and the increase of EU imports will be on the expense of SA. Data presented i section 5.1.4. on the country's import patterns indicate that there will be trade creation of this kind. The situation for Angola is different to some extent. Increased EU imports in the SADC area does not necessarily have to affect the Angolan trade situation considering that SA does not play a major part in the country's trade patterns. As presented in section 5.1.1. the Angolan economy does not rely significantly on other SADC members for trade, which illustrates that the country's intra-SADC trade will not be significantly affected by the EU-SADC Interim EPA. However, we can derive intra-SADC trade effects on other SADC EPA States.

The Interim EPA will also affect other export nations, not solely SA, within the SADC EPA region. In section 5.1. we presented the countries' trade patterns and these illustrate that for nearly all SADC EPA states, intra-SADC exports are essential for the trade industries. As for imports, the majority of the intra-SADC exports are destined for SA. Along with the exports destined for other SADC EPA States and SADC countries (e.g. Zimbabwe and Zambia), the competition from the EU will likely cause a reduction in exports from these countries. However, it is difficult to estimate whether this decrease will affect the SADC EPA exporting countries negatively seeing that the increased imports from the EU might be significantly higher in sectors where the SADC EPA countries are less dominate. The increased competition from the EU will therefore have a larger effects on the trade with ROW instead of intra-SADC (excluding SA). The effects on ROW are discussed in the next section, 5.4. Moreover, this intra-SADC change, excluding SA, will most likely have the largest impact on the Swaziland import industry. Namibia, Lesotho and Botswana together represent 4.1 percent of Swaziland's imports. Consequently, the lower EU import prices may result in a larger share of Swaziland's imports sourced from Europe, in addition to plausible lower levels of exports for Namibia, Lesotho and Botswana.

5.4. Effects on the Rest of the World

As an effect of the proposed changes in trade patterns due to the EU-SADC Interim EPA there will be consequences on the trade patterns with the rest of the world. To what extent the SADC EPA trade will change can somewhat be dependent on previous sector specific trade preferences with important ROW-trade partners (e.g. The US's Africa Growth and Opportunity Act (AGOA) which has enabled

textile exports from African countries (http://www.agoa.gov). This analysis does not cover special trade preferences outside of the SADC region and our discussion is based on the trade data presented in the previous sections.

In section 5.2. we estimated a small change in SADC exports to the EU which to some extent can be taking place on the expense on trade partners from ROW. However, seeing that exports from SADC already enjoy preferential treatment on the EU market, this potential increase will act to further deepen the trade diversion taking place within the EU. Furthermore, our estimation of an increase in European influence within the SADC EPA region can cause trade to be diverted from the previous suppliers in third countries/ROW to EU imports turned cheaper due to tariff liberalization. The overall effects of trade diversion will be relatively small since the existing import tariffs on average are low in the SADC region (World Bank, 2008:18). Returning to section 5.1., where the SADC EPA countries' import patterns are analyzed, we see that a common import partner for a majority of the SADC EPA countries is China. The only exception is Swaziland where China does not reach the list of top 5 import sources. Therefore, we argue that the are possibilities of trade diversion affecting China negatively since their production is replaced by supplies from the now less expensive European producers. The United States is an essential source of imports in Angola, Namibia and Botswana. In these countries, the trade patterns indicate feasibly effects of trade diversion directed against the US since imports from the EU may out-weight previously cheaper and more efficient producers. In addition, exporters such as Hong Kong (China), India, Switzerland, United Arab Emirates, Japan and Saudi Arabia etc. may see a decrease in their exports to the SADC EPA States due to the liberalization on EU imports. However, it is likely that these effects are smaller in large, rich countries because of their assumed ability to diverse their exports and thus not suffer large damages following changes in small countries' (e.g. the SADC EPA States) import patterns. Small exporting countries specializing in certain products will be worse off if trade is diverted to cheaper EU suppliers. In the SADC EPA countries, a certain amount of goods are imported from unspecified trade partners ("others" in the figures 5.1., 5.2. and 5.3.) which are likely to include some vulnerable exporting countries. Furthermore, we assume the trade diversion to foremost affect the manufactures industries since this is where the concerned third countries/ROW focus the majority of their export sectors. Furthermore, the analysis regarding trade diversion following the EU-SADC EPA depends on the existing tariff levels in the liberalizing countries (World Bank, 2008:18). The SACU members and Angola have, on average, initially low level of tariffs, which can indicate less trade diversion in ROW. However, Mozambique is the country with the highest tariffs (on average) and could therefore cause more diversion of trade due to tariff liberalization on EU imports. Trade diversion as an

effect of the EU-SADC Interim EPA will be less significant if the negotiating parties at the same time opened up to multilateral trade liberalization since the differences in tariffs would be reduced.
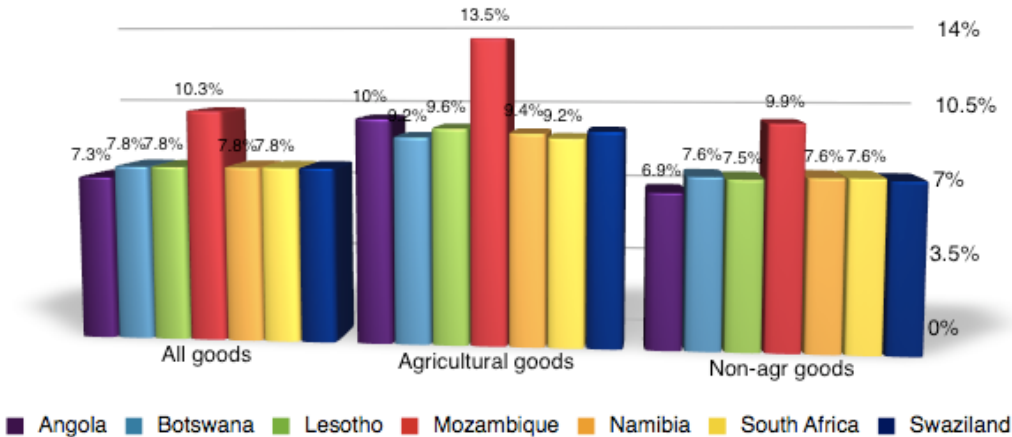
5.4.1. Effects of rules of origin

Following the Interim EPA, the rules of origin is to be liberalized. This indicate that the trade pattern from the SADC countries towards the EU might be slightly altered as there are new possibilities for SADC EPA producers to process imported goods and thereafter export it to the EU. Previous set of rules implied that the ACP states could only process goods imported from the EU, but not from a third country/ROW, as the goods then fell outside the trade preference scheme for goods destined for the EU (World Bank, 2008:9f). The effect of the relaxed ROO is supposedly an improved market access for the SADC EPA producers as they now have access to competitive priced goods from ROW and other SADC countries. Intra-SADC trade will most likely gain from the new regulations. The same goes for the overall welfare effect that will be positively affected as the risk of trade diversion, as described in the previous section, is reduced when the most competitive priced intermediate may be used for processing. Furthermore, it is likely that the SADC EPA producers' integration to larger production networks promotes a more diversified export structure, which is very important for the future development of the region.

5.5. Fiscal effects

Exports from the EU destined for the SADC market is to be 80-85 percent free from duties and tariffs following the interim EPA signed by the negotiating parties. SADC imports a significant share of their commodities from the EU, which leads to certain fiscal effects in the SADC EPA countries.

Figure 5.4. Applied MFN tariffs in the SADC EPA countries 2007

■ Angola ■ Botswana ■ Lesotho ■ Mozambique ■ Namibia ■ South Africa ■ Swaziland

Applied most favored nation tariffs in the SADC EPA countries 2007. Source: WTO (2009) Statistics database.

As can be seen in figure 5.4. the SACU countries, Botswana, Lesotho, Namibia, South Africa and Swaziland, being a customs union, applies the same MFN tariffs on all goods. This reflects their harmonized trade relationship and as the largest trade nation in the union, South Africa plays an important role in SACU. Due to their participation in the SACU, the member countries are supposedly better prepared for the 80-85 percent duty- and quota-free imports from the EU. Almost all trade with SADC is liberalized in the SACU, which indicates that the countries are well prepared for further trade liberalization with the EU (SACU Trade Data, 2007). Nevertheless, within the SACU, different member states may react differently to a reduction in tariff revenues. Based on figure 5.2. (a), (b), (d), (e) and (f) the countries most vulnerable to tariff liberalization on 80-85 percent of all goods imported from the EU are South Africa, Botswana and Namibia. However, as previously mentioned, South Africa has a separate trade agreement with the EU defining an FTA between the parties, whereas the country is likely to have initiated policies for such a liberalization. Namibia and Botswana on the other hand might be in a more difficult situation whereas they export important shares of their goods to the EU. In addition, these countries are highly dependent on trade with SA which is already liberalized.

Mozambique is the country with the highest MFN tariffs in the SADC EPA region, which can indicate a high level of vulnerability when it comes to the 80-85 percent tariff liberalization on EU imports. In addition, Mozambique imports approximately 23.5 percent of their total imports from the EU which demonstrates that the country may experience difficulties when tariffs are reduced on EU imports. This conclusion is further strengthened by the fact that the country imports their largest share of goods in non-sensitive industries as described in the Interim EPA, such as Commodities not elsewhere specified, Mineral fuels, oils, distillation products etc. and Vehicles other than railway and tramway since these imports are not likely to be excluded from the liberalization process. Despite this, Mozambique is the country with the highest tariffs on agricultural products which reflect that the country will continue to protect its agricultural sector even post-trade liberalization and still gain, although little, government revenue.

We can see that Angola has the lowest applied MFN tariffs on all goods, however higher than the SACU members on agricultural goods. Despite their low tariff rates, Angola can be assumed to be vulnerable to tariff revenue losses considering their status as a LDC. On the other hand, Angola has higher tariffs on agricultural products which are included in the group of sensitive products which are to be excluded from tariff liberalization in the EPA-liberalization process. Thus, the country might be in a better position

when it comes to fiscal effects of the Interim EPA. Nevertheless, it is important to acknowledge the lack of data regarding the EU's position among the main import and export partners, which makes is difficult to predict the overall fiscal effects on government's income losses from EU imports.

5.6. Development effects of the EU-SADC EPA

When the SADC EPA states signs the Interim EPA it will cause indirect effects on the economies that are not evident in statistics but rather a deepening of analysis made from theory of development effects presented in Section 3.3. One of those effects is the increased competition on imports from non-SADC EPA countries, other than the EU. Mainly it is the imported commodities from SA, which is a dominant import partner as described in previous sections. The EU produces goods that can be equivalent to the goods produced by SA. This can lead to better quality goods and lower prices for consumers in the SADC region, a region at present recognized for the low levels of trade diversification and competition. Furthermore new sources of imports may bring technological progress to the region, which is a vital factor for future development.

Another aspect that should not be neglected is the similarities in export structure between the SADC EPA states. Mainly it is primary goods such as mineral fuels, different types of metals, precious stones and fish that dominate exports. In theory, competitive economies are preferable but as there are no, or limited possibility to specialization in the case of primary goods, the positive effects may fail to come off. This could also indicate that the export commodities of one SADC EPA country, easily can be replaced by the commodities of a neighbor country. In that case, the sensitivity to natural disasters and exchange rate movements might be even greater. With the export structure of today's SADC EPA region there is limited prospects to take advantage of other development effects such as economies of scale in the near future. However, the increase in EU competition on SADC EPA production might have a short run negative impact, but in the long run it is positive for the region's development as competition promote advance in quality and production structure.

Another area that raises interest on development of the EU-SADC Interim EPA is the fiscal impacts of the agreement. As we expect the fiscal difficulties of the SADC EPA countries to be tangible as a result of the tariff liberalization, the governments' handling of the states financial resources need to change. Moreover, the implementation of the Interim EPA will give the countries involved legitimate reasons for reforming their state finances due to large losses in tariff revenues (World Bank, 2008:22). Domestic tax

systems need to become stronger and more efficient and the government's need to become more sufficient in collecting tariff revenues. Thus, Interim EPA can in the long run lead to better state finances and more efficient government administration.

6. Conclusions

This paper analyses the design, structure and likely outcome of an EPA between the EU and the SADC EPA member states. Our intention has been to analyze the effects and impacts on SADC EPA economies of the agreement.

As trade is liberalized an overall increase in trade with the EU is expected. Consumer welfare is expected to rise as an effect of the introduction of less expensive commodities imported from the EU. Export from the SADC EPA states destined to the EU will presumably rise. However, this effect might be overestimated due to previous trade preferences granting ACP exporters duty- and quota-free access to the EU market. Moreover, the exporters' dependence on demand and elasticity in production, as well as the goods sensitivity to fluctuations in world market price will affect the overall effects of the EU-SADC EPA. The latter is especially true for the SADC countries as they, to a great extent, export primary and non-diversified goods. Furthermore, trade patterns within the SADC region are expected to change as an effect of the tariff liberalization which will cause the intra-SADC trade patterns to change. It is likely that the dependence on South Africa as a trading partner will decrease when the Interim EPA enter in force. The change is analyzed with respect to tariff reduction and relaxed rules of origin. The SADC EPA region's trade with rest of the world is also predicted to be altered. We estimate the increase in European influence within the SADC EPA region to cause trade to be diverted from the previous suppliers in ROW to EU imports turned cheaper due to tariff liberalization. Furthermore, we do not predict this trade diversion effect to be significantly large as tariffs on imports on average are low in the SADC region.

When evaluating the effect of the Interim EPA, the loss of government revenue when tariffs are liberalized is another area of concern. The magnitude of the income losses is hard to predict but we assume that they will be an issue of concern for the SADC EPA countries. The same goes for the development effects. In the short run we do not expect to see positive effects of the expected increased of competition promoting more effective production and lower consumer prices. In the long run the SADC EPA states may enjoy increased trade diversification, economies of scale and get access to technological progress.

Finally, the alternatives of the EU-SADC Interim EPA are discussed. We can see that for a majority of the SADC EPA States, the trade preferences given outside of the EPA-framework are less beneficial than both the Lomé/Cotonou and the EPA. The only SADC member currently trading with the EU under the EBA-preferences is Angola, seeing that their export industry largely depend on petroleum.

6.1. Policy implications

The Lomé/Cotonou trade preference scheme is no longer an option for the ACP countries wanting preferential treatment on the EU market. Thus it is important to briefly emphasize the alternatives to the EU-SADC Interim and future full EPA. For the LDCs of the agreements, Angola, Lesotho and Mozambique, have the possibility is to join the Everything but Arms (EBA) scheme presented to all LDCs by the EU. This trade preference scheme is not as beneficial as the EPAs when it comes to access to the EU market, but it does not call for the LDCs to liberalize trade on a reciprocal basis such as the Interim EPA (Curran et al., 2008:531). Among the SADC EPA States, Angola now trades with the EU under the EBA, but this is not the case for Lesotho and Mozambique who have signed the Interim EPA (European Commission, EPA Update, 2009). However, as concluded in section 5.1., Angola's trade patterns differs somewhat compared with the rest of the SADC EPA countries. Their main export commodity is petroleum (98 percent of total exports) and the EBA is thus an option reasonable enough to consider before signing the Interim EPA.

Not all SADC EPA States can enter the EBA trade scheme and for the rest of the members (excluding SA) the alternatives are the Generalized System of Preferences (GSP) and the GSP+. With the GSP the SADC EPA States would be in the same import category as other developing countries, e.g. China, India etc. Thus, the competition for the SADC EPA countries' exports would increase significantly and an immediate effect of this could be large reduction of exports from the SADC EPA States destined for the EU (Curran et al., 2008:540). Furthermore, the GSP+ preference scheme offered by the EU is more beneficial than the general GSP, but contains certain conditions for participating countries. These conditions are linked to the objective of the scheme, namely "sustainable development" (Curran et al., 2008:541). Thus, the SADC EPA States are not likely going to join the GSP or the GSP+ scheme seeing that the effects and conditions are non-beneficial. As previously mentioned, these options do not apply for SA who has it's own trade agreement with the EU.

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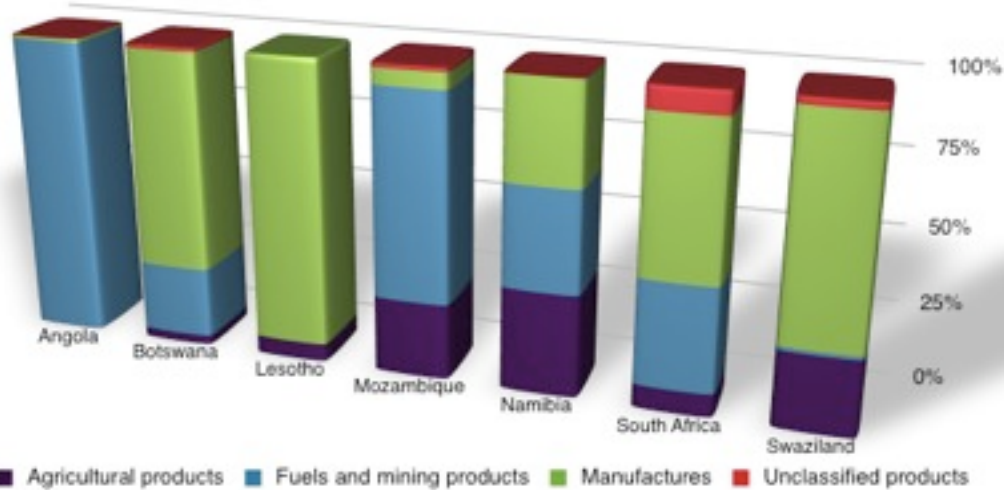
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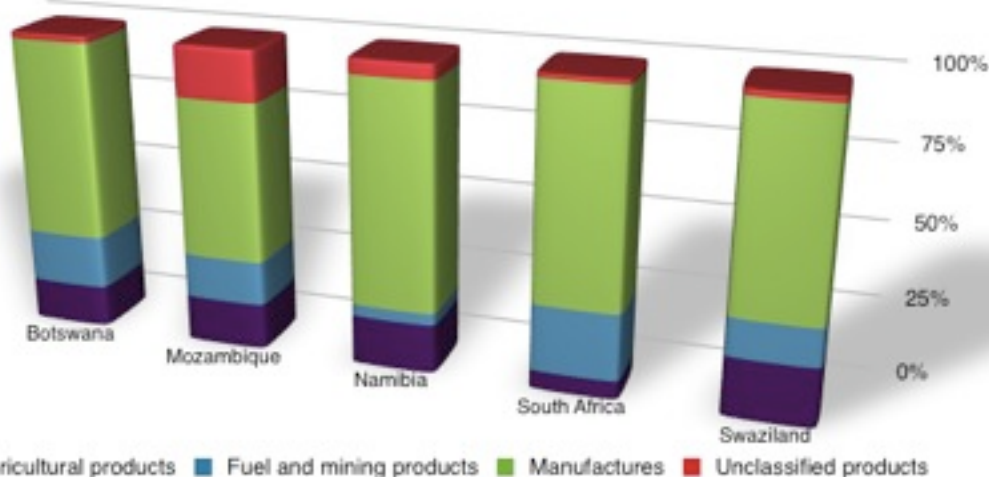The Southern African Development Community (SADC) Webiste: http://www.sadc.int/ 2009-07-04.

Appendix I

Figure 1. Breakdown of countries total exports by main commodity group

Agricultural products Fuels and mining products Manufactures Unclassified products

Breakdown of the SADC EPA countries' total exports by main commodity group 2007 (as presented in WTO's International Trade Statistics). Unclassified products refers to products not classified by the three main groups. Source: WTO (2009) Statistics database.

Figure 2. Breakdown of countries total imports by main commodity group

Agricultural products Fuel and mining products Manufactures Unclassified products

Breakdown of the SADC EPA countries' total imports by main commodity group 2007 (as presented in WTO's International Trade Statistics). Data not available (n.a.) for Angola and Lesotho. Unclassified products refers to products not classified by the three main groups. Source: WTO (2009) Statistics database.