

Ex-Post Evaluation of the Economic Partnership Agreement (EPA) between the EU and its Member States and the Southern African Development Community (SADC) EPA States

(TRADE2022/C1/C12 - 2022/OP/0007)

Preliminary findings on economic effects

November 2023



Project funded by the European Union. The views expressed in this document do not represent the official point of view of the European Commission or the SADC EPA State governments

Implemented by
a team led by



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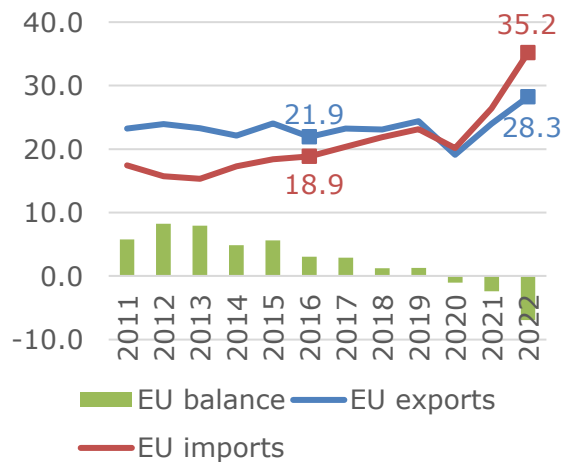
Overview

- **Overview of trade developments between SADC EPA States and the EU**
 - Over time (before/since EPA)
 - Compared to other trading partners
 - Problem: many factors intervene, in addition to the EPA
- **Computable general equilibrium (CGE) model results**
 - Isolate the impact of the EPA, compares actual situation by 2022 with two counterfactuals:
 - Scenario A: TDCA would have prevailed
 - Scenario B: No trade agreement would have been in place
 - But: simplified version of reality

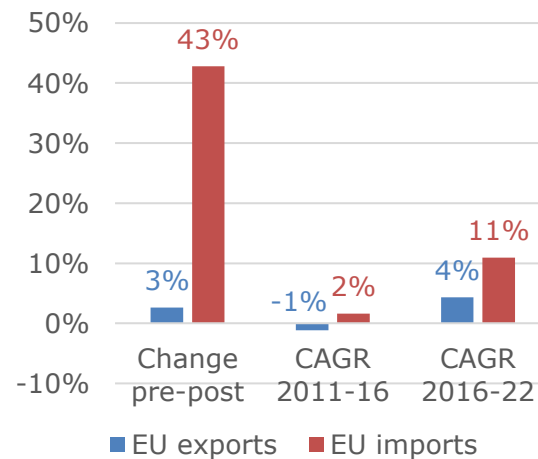
Trade performance over time (1)

1. Trade between the EU27 and the six SADC EPA partners had stagnated between 2011 and 2016, but since 2016 increased substantially
2. Average growth in bilateral trade was higher since the EPA, both ways
3. **South Africa** accounts for about 80%-90% of bilateral trade – in line with its share in regional GDP
4. EU-South Africa trade also increased, and grew faster, since the EPA started to be applied

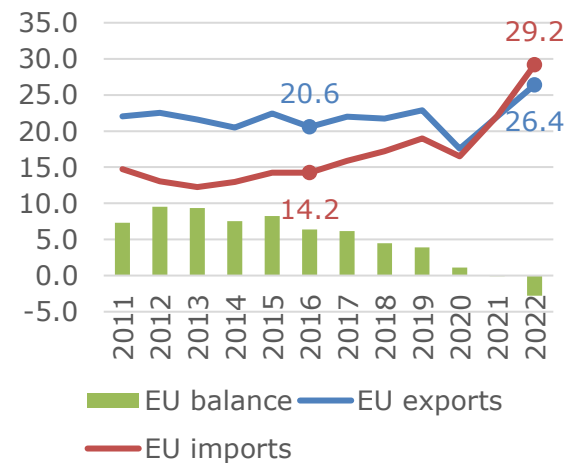
EU-SADC EPA State bilateral trade, 2011-2022 (€ billion)



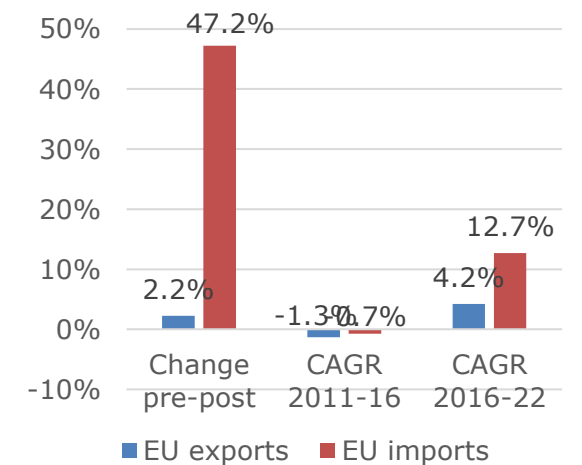
EU-SADC trade growth rates pre- and post-EPA



EU-ZAF bilateral trade, 2011-2022 (€ billion)



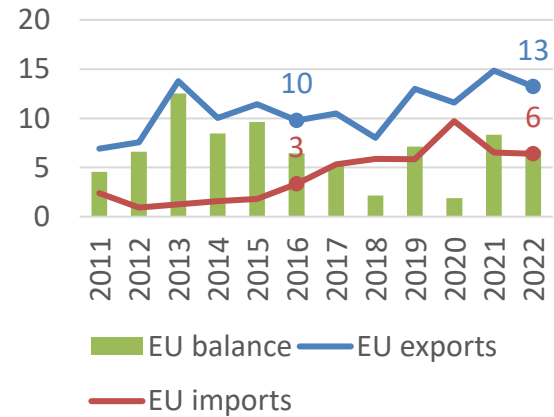
EU-ZAF trade growth rates pre- and post-EPA



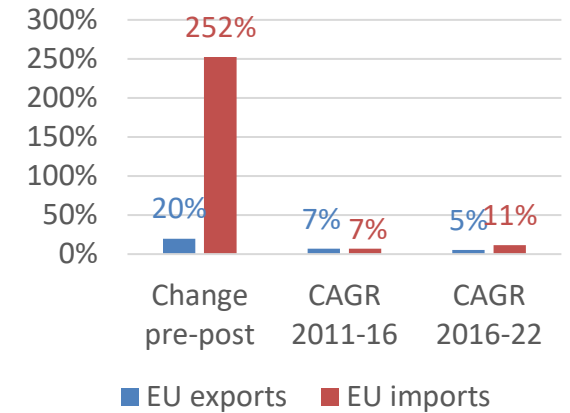
Trade performance over time (2)

- Exports of **Lesotho** to the EU were between €200-300 million since 2016 – more than 95% are diamonds.
- Lesotho’s non-diamond exports doubled from 2016 to 2022, and EU exports to Lesotho also increased – but all at limited levels. Annual growth rates before and since the EPA were comparable
- EU-**Eswatini** trade was flat in the EPA period; Eswatini exports had declined prior to the EPA (low point in 2018)

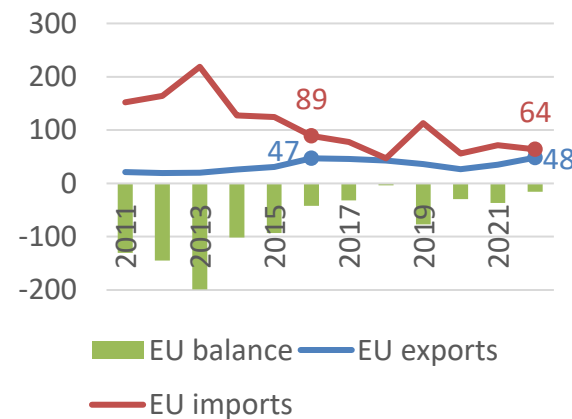
EU-LSO bilateral trade (excl. diamonds, 2011-22 (€ million)



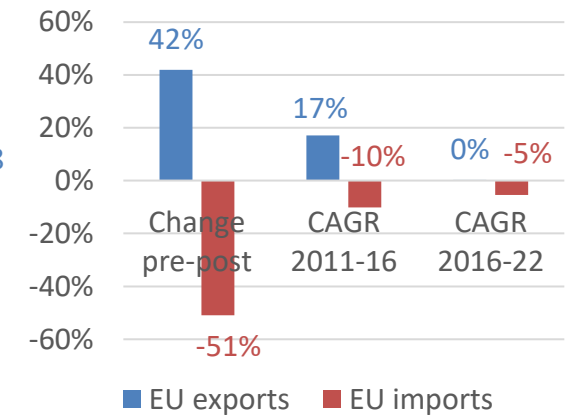
EU-LSO trade growth rates pre- and post-EPA



EU-SWZ bilateral trade, 2011-2022 (€ million)



EU-SWZ trade growth rates pre- and post-EPA



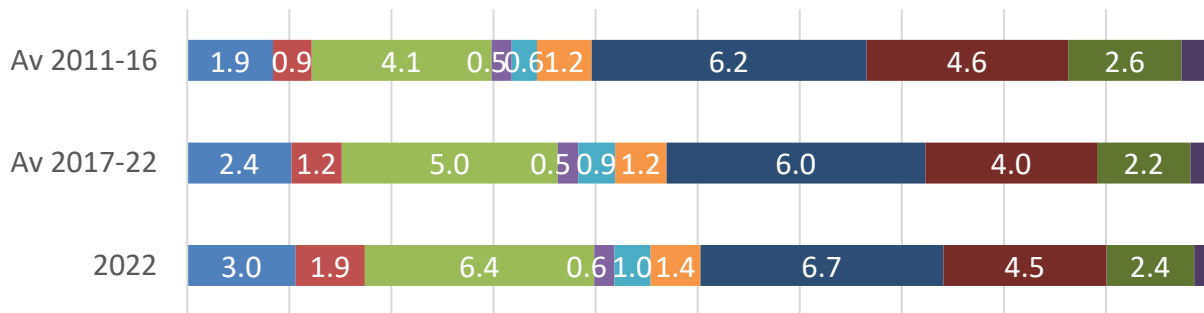
Sector composition of trade (1)

- Changes in the composition of trade over time have been limited, at **regional aggregate levels**:
 - EU exports to SADC EPA are led by machinery, chemicals and vehicles
 - EU imports from SADC EPA are led by five broad sectors: stone (mostly precious minerals), vehicles, minerals, metals, and agriculture

EU-SADC EPA States trade by broad sector (€ billion, %)

EU exports to SADC EPA States

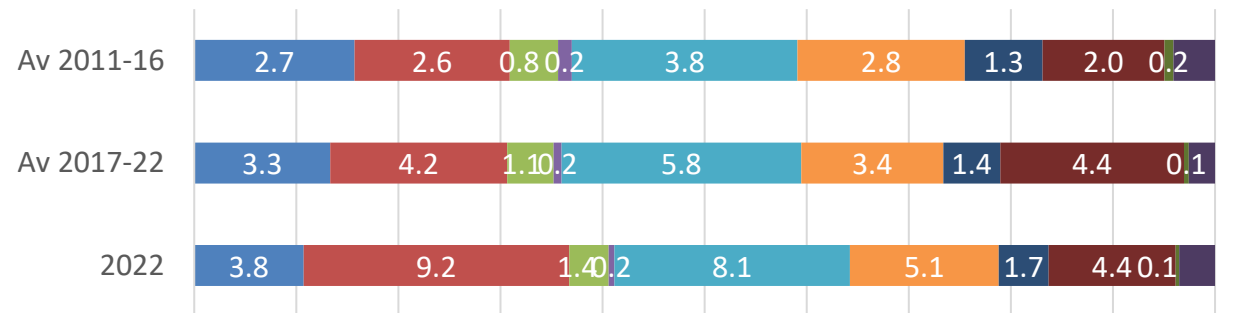
0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%



■ Agriculture ■ Minerals ■ Chemicals ■ Textiles ■ Stone
■ Metals ■ Machinery ■ Vehicles ■ Electronics ■ Other

EU imports from SADC EPA States

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%



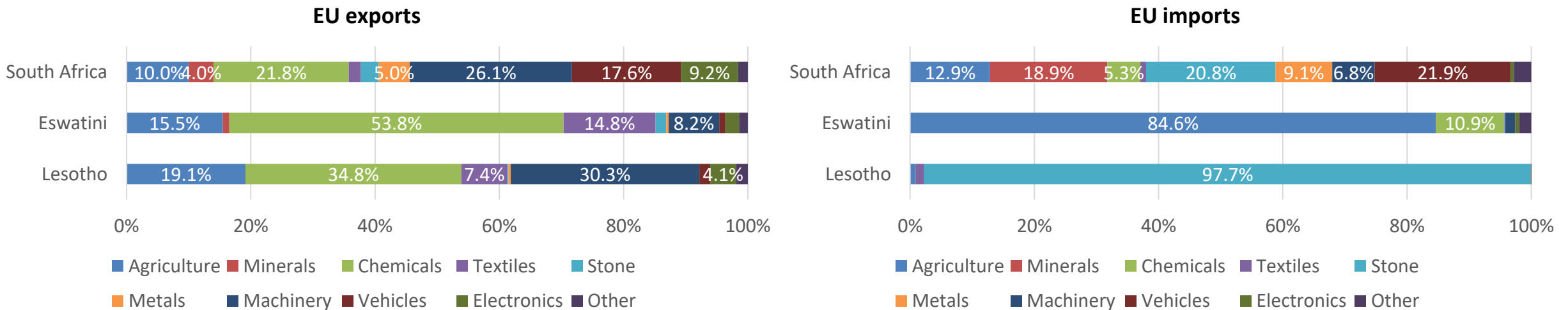
■ Agriculture ■ Minerals ■ Chemicals ■ Textiles ■ Stone
■ Metals ■ Machinery ■ Vehicles ■ Electronics ■ Other

Sector composition of trade (2)

2. The composition of trade varies substantially across SADC EPA States. **South Africa, Eswatini and Lesotho:**

- EU exports of chemicals, machinery and agri-food are important in all three partners, textiles for LSO and SWZ, vehicles for ZAF
- EU imports
 - diversified from ZAF but concentrated from Eswatini (agriculture, some chemicals) and Lesotho (stone = diamonds)
 - changes in composition limited over time (increase: textiles from LSO; chemicals, machinery, electronics from SWZ; minerals from ZAF)

EU trade with Eswatini, Lesotho, South Africa by broad sector, annual averages since start of EPA (%)

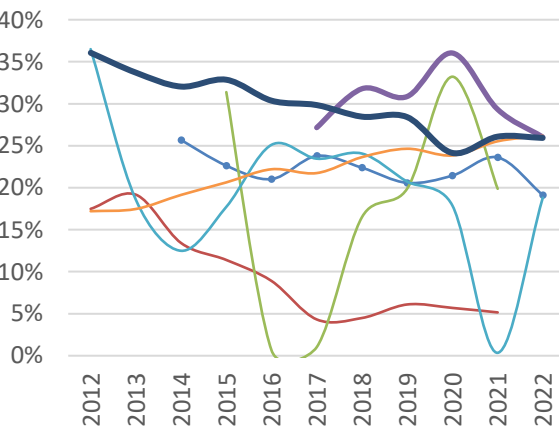


Bilateral trade in context (1)

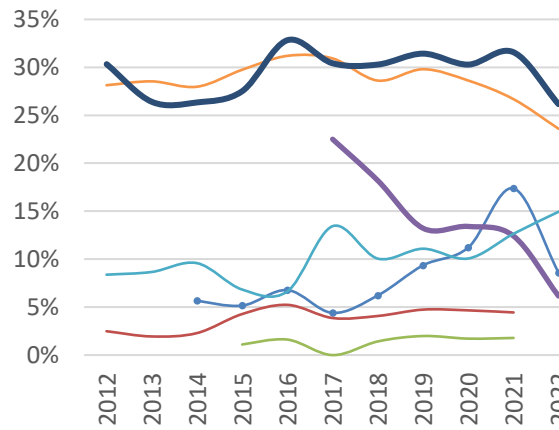
1. Despite the EPA, SADC EPA States have lost some importance as a destination for EU exports in the longer term (in relation to the EU's total extra-EU exports)
2. The EU's share in most SADC EPA States' exports has remained constant – in line with the continued preferential market access that these exports benefit from in the EU under the EPA
3. Differences across SADC EPA States are large – for **South Africa**:
 - Exports to EU have performed better than most other export markets, imports from EU have underperformed

Share of EU-SADC EPA bilateral trade in Parties' total trade, 2012-22

Exports

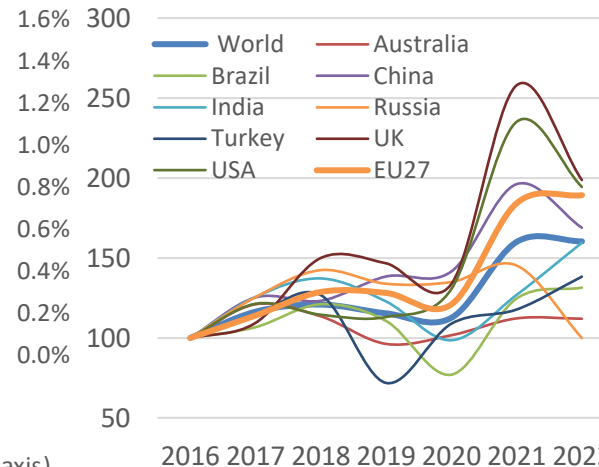


Imports

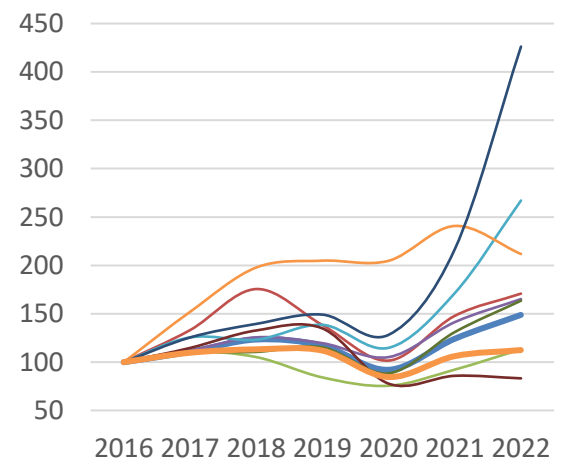


ZAF trade w/EU vs trade w/other partners (index, 2016=100)

ZAF exports



ZAF imports



— Botswana — Eswatini — Lesotho — Mozambique — Namibia — South Africa — EU27 (right axis)

Bilateral trade in context (2)

4. For Eswatini:

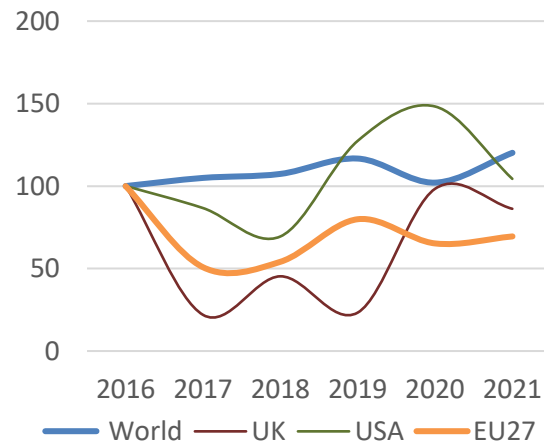
- Exports to the EU have lagged behind USA (and total)
- Imports from the EU have underperformed compared to most other suppliers, esp. China

5. For Lesotho:

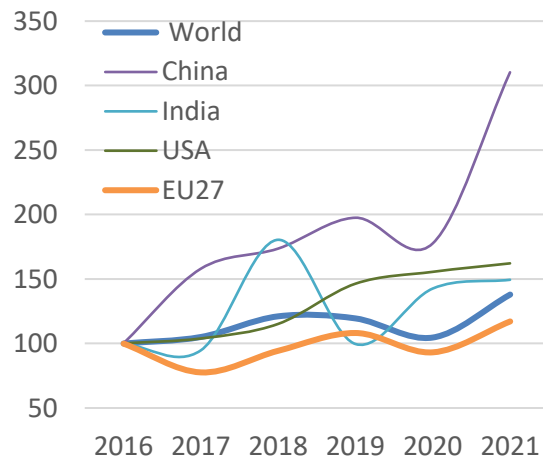
- EU's importance as a trading partner for Lesotho has not substantially changed
- Exports to EU have been volatile, but the share has grown; EU a limited supplier to LSO, constant share

SWZ trade w/EU vs trade w/other partners (index, 2016=100)

SWZ exports

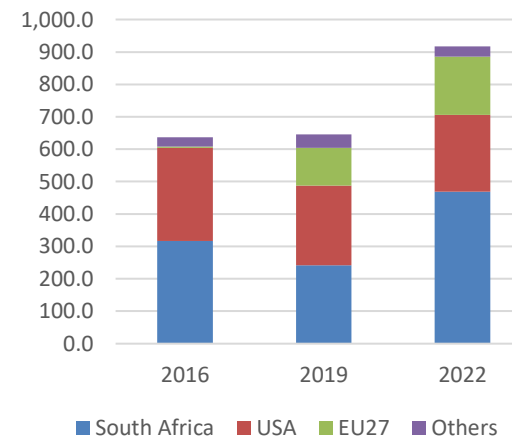


SWZ imports

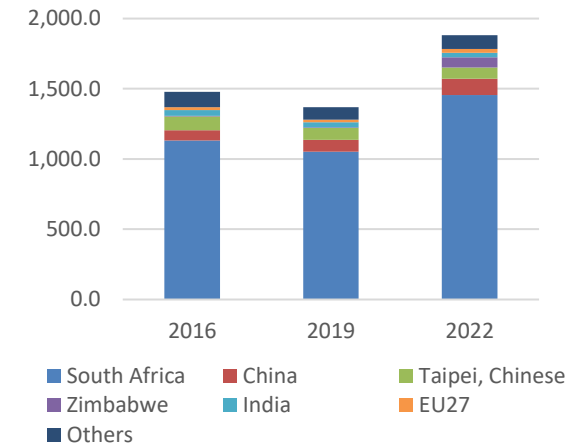


LSO trade w/EU vs trade w/other partners (index, 2016=100)

LSO exports



LSO imports



CGE results - macro

- The EPA lowers the tariff for bilateral trade (**scenario A**, trade-weighted tariffs):
 - EU exports to SADC EPA States: from 5.74% to 0.5%
 - SADC EPA States exports to EU: from 1.44% to 0.03%

=> **Expanded two-way trade – by about 5.9%**
- Increased trade contributed to a **positive impact on real GDP for all Parties**
 - **South Africa's real GDP gain is in line with the SADC** (0.025% vs. 0.029% for SADC) and stronger still in GDP value (0.043%) given a positive terms of trade impact.
 - **Lesotho** (0.14%) and **Eswatini** (0.043%) make stronger gains in real terms but experience negative terms of trade impacts and see the value of GDP fall marginally.
 - **Economic welfare improved** both within the EU (a gain of €543 million) and across the SADC EPA region as a whole (a gain of €452 million)
 - Solid welfare gain for **South Africa** (€293 million) but the negative terms of trade Impact washes out the welfare gains for Lesotho and Eswatini.
 - Scenario B gains in real terms are substantially larger for SADC EPA region as a whole; South Africa also improves its welfare gains but Lesotho and Eswatini see the price effects wipe out real gains

CGE results - macro

Scenario A – comparison with TDCA

Bilateral trade		South Africa	Mozambique	Botswana	Namibia	Lesotho	Eswatini	SADC Total	
EU Bilateral Exports (€ millions, 2022 prices)		2,701	275	29	34	24	8	3,070	
SADC Bilateral Exports (€ millions, 2022 prices)		1,003	8	12	266	1	3	1,292	
EU Bilateral Exports (%)		7.7	20.2	5.5	3.0	48.1	4.6	8.0	
SADC Bilateral Exports(%)		3.4	0.5	0.4	14.1	0.3	2.7	3.6	
Welfare & GDP		EU27	South Africa	Mozambique	Botswana	Namibia	Lesotho	Eswatini	SADC Total
Economic Welfare (€ millions)		543	293	-10	19	149	2	0	452
Real GDP (% change)		0.0018	0.025	0.108	0.021	0.075	0.140	0.043	0.029

Scenario B – comparison with no agreement in place

Bilateral trade		South Africa	Mozambique	Botswana	Namibia	Lesotho	Eswatini	SADC Total	
EU Bilateral Exports (€ millions, 2022 prices)		8,352	276	81	91	27	21	8,849	
SADC Bilateral Exports (€ millions, 2022 prices)		5,880	-2	13	273	1	4	6,168	
EU Bilateral Exports (%)		23.9	20.3	15.7	8.1	54.2	12.4	23.2	
SADC Bilateral Exports(%)		20.1	-0.1	0.5	14.4	0.2	4.0	17.1	
Welfare & GDP		EU27	South Africa	Mozambique	Botswana	Namibia	Lesotho	Eswatini	SADC Total
Economic Welfare (€ millions)		593	1,507	-16	2	124	-4	-13	1,599
Real GDP (% change)		0.0025	0.042	0.103	0.006	0.087	0.183	0.092	0.044

Sectoral Impacts on SADC - Overview

- Half of SADC sectors saw an increase in bilateral exports to the EU due to the EPA
- Virtually all SADC sectors saw an EPA-driven increase in bilateral imports from the EU
- SADC sectors not benefiting from EU tariff liberalisation did marginally less well under the EPA as SADC resources were reallocated to sectors boosted by the EPA
- Overall impact on a given sector reflects the net effect of:
 - EPA-driven bilateral export gains to the EU;
 - EPA-driven import penetration of EU products in SADC markets;
 - Trade diversion effects (redirection of existing SADC exports to third parties towards EU markets, and switching sourcing of imports from third parties towards EU suppliers)
 - Impact on domestic sales of the EPA-driven income gains – non-traded sectors gain

Sectoral CGE results – ZAF/LSO/SWZ exports to EU

- Without the EPA, under scenario A, ZAF would still have enjoyed the EU's TDCA tariffs, LSO the EBA, and SWZ the GSP. The only significant impacts on bilateral exports are for ZAF
- Motor vehicles and parts has the largest positive impact from the EPA with an increase of € 415 million
- Sugar has the largest gain in percentage terms with a 90% increase worth € 209 million
- Vegetables, fruit and nuts exports also rising significantly in value (€ 107 million) on the basis of a 9% increase in percentage terms.
- Trade services and commercial services see increased exports driven by income gains rather than liberalization

	ZAF Bilateral exports (€ millions)	ZAF Bilateral exports (% change)
Motor vehicles and parts	414.7	3.9
Sugar	209.0	90.4
Trade services	133.0	7.8
Vegetables, fruit, nuts	106.9	9.1
Commercial services	76.8	7.9

Sectoral CGE results – ZAF/LSO/SWZ imports from EU

- Without the EPA, ZAF/LSO/SWZ would have imposed tariffs on EU imports under the TDCA, which liberalizes 86% of the region’s imports from the EU (scenario A).
- The major sectors experiencing increased imports from the EU under the EPA are shown.
- Motor vehicles and parts is by the far the most impacted sector in level terms (€1.65 billion); wearing apparel in percentage terms (68.5%).
 - Wearing apparel imports into LSO is the only significant sectoral impact for LSO/SWZ
- Commercial, trade and finance services see increased imports driven by income gains rather than liberalization

	ZAF Bilateral Imports (€ millions)	ZAF Bilateral Imports (% change)
Motor vehicles and parts	1,647.3	27.0
Wearing apparel	291.6	68.5
Rubber and plastics	164.5	12.9
Commercial services	138.8	5.5
Leather	97.4	41.5
Trade services	92.8	6.4
Machinery and equipment	61.0	1.4
Paper products	42.8	6.0
Textiles	41.0	14.9
Finance services	37.4	5.8
Metal products	24.0	1.7
Electrical equipment	16.3	1.0
Chemicals	15.3	0.4

Sectoral CGE results – ZAF/LSO/SWZ total impact on value of shipments (1)

- The total impact on a sector is the sum of its total exports to all markets (which takes into account redirection of existing exports towards the EU) and domestic shipments (which takes into account import penetration from all sources)
- Impacts reflect both quantity and price
- ZAF's largest increases at the sector level is in autos (€417 million) as exports offset reduced domestic sales due to EU import penetration.
- Sugar (€372 million) and vegetables, fruit & nuts (€150 million) convert export gains into total sales; cattle makes its gain (€417 million) with domestic sales despite a minor reduction in total exports.
- Services sectors expanding in ZAF are trade (€276 million) and public services (€209 million)
- LSO and SWZ make only modest gains in total sales, driven mainly by export gains.

	(€ million)	Total Exports	Domestic Shipments	Total Shipments
Motor vehicles & parts		828.0	-411.4	416.5
Sugar		344.1	27.4	371.5
Trade services		171.2	105.0	276.3
Cattle		-0.6	263.6	263.0
Public services		-2.6	211.4	208.8
Vegetables, fruit, nuts		135.7	14.0	149.7
LSO				
Textiles		2.67	0.53	3.20
SWZ				
Chemicals		8.40	0.30	8.70
Sugar		1.31	2.08	3.39
Commercial services		4.81	-1.53	3.28

Sectoral CGE results – ZAF/LSO/SWZ total impact on value of shipments (2)

- A number of sectors in ZAF experience an overall decline in sales (i.e., less growth over the EPA period than otherwise would have been the case)
- These impacts are mostly small in percentage terms and driven by different factors:
 - Metal products mainly driven by price effects – the higher real wages create head winds for ZAF exports
 - Other sectors experience reduced domestic shipments due to import penetration
- Wearing apparel is the most affected sector in the region in percentage terms:
 - ZAF: € 106 million reduction in total sales or a decline of 2.8%;
 - LSO: € 9.5 million reduction in total sales or a decline of 1.5%;
 - SWZ: € 18 million reduction in total sales or a decline of 6.2%;
- Textiles in SWZ also has a palpable impact (€ 4.7 million reduction in total sales or a decline of 1.8%.

	Total Exports	Domestic Shipments	Total Shipments	
	€ millions	€ millions	€ millions	% ch
ZAF				
Metal products	-143.4	-12.8	-156.1	-0.3
Wearing	-23.1	-82.8	-105.9	-2.8
Rubber & plastics	-3.7	-64.7	-68.3	-0.9
Machinery and equipment	-21.5	-38.8	-60.2	-0.4
LSO				
Wearing apparel	-5.9	-3.6	-9.5	-1.5
SWZ				
Wearing apparel	-18.1	-0.2	-18.3	-6.2
Textiles	-0.7	-3.9	-4.7	-1.8

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