

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 the impact of the EPA

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

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a team led by



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Preliminary findings on the impact of the EPA - overview



Economic effects



Social effects



Environmental effects



Effects on human rights

Economic effects

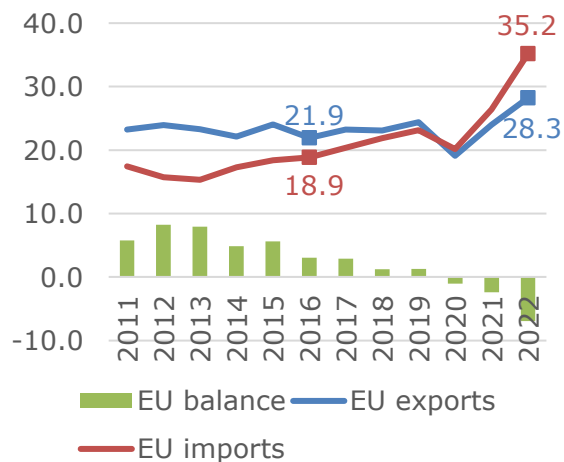
Overview

- **Overview of trade developments between SADC EPA States and the EU**
 - Over time (trends 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 in 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

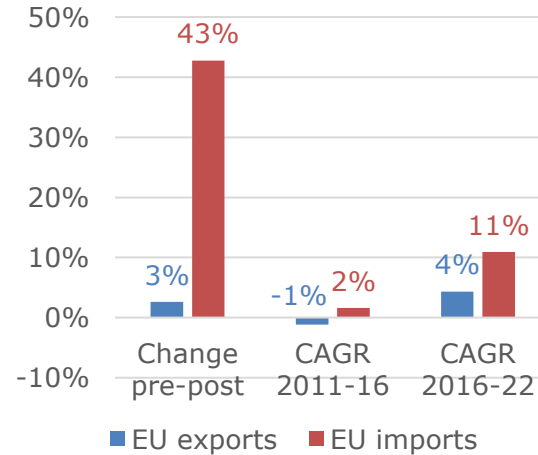
Trade performance over time

1. 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. Disregarding diamond trade, EU exports to Botswana increased, with slowing growth over time, but Botswana's export to the EU decreased, and were very limited in the EPA period

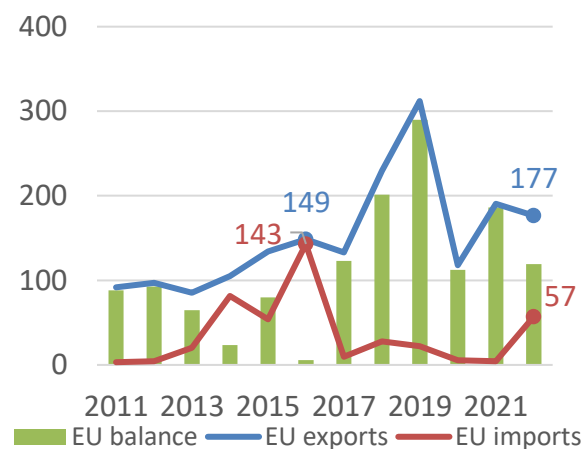
EU-SADC EPA State bilateral trade, 2011-2022 (€ billion)



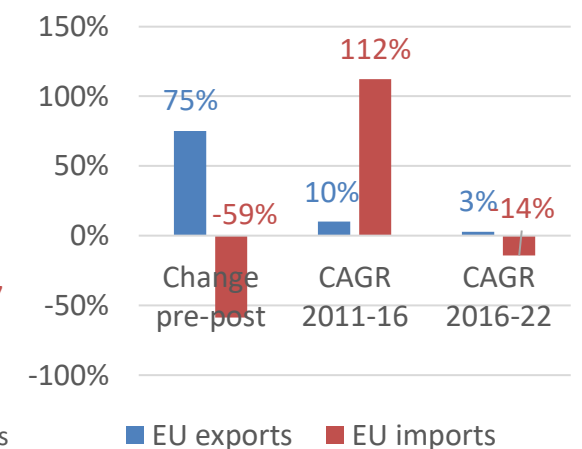
EU-SADC trade growth rates pre- and post-EPA



EU-BWA non-diamond trade, 2011-2022 (€ million)



EU-BWA trade growth rates pre- and post-EPA (excl. diamonds)



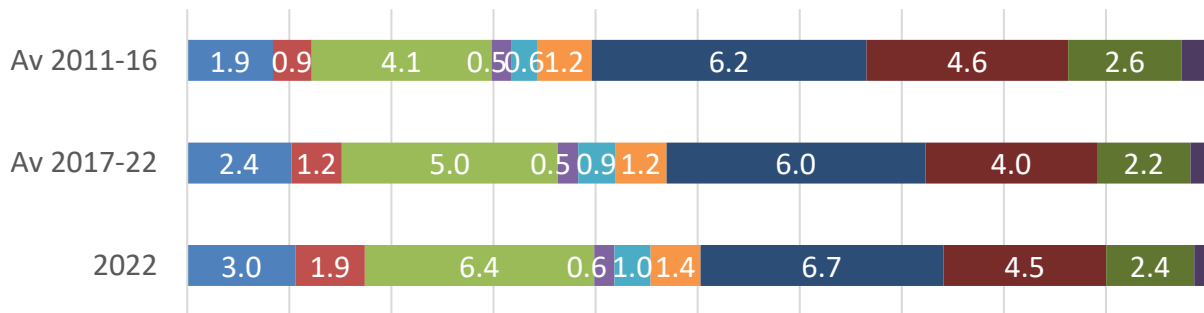
Sector composition of trade (1)

- 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

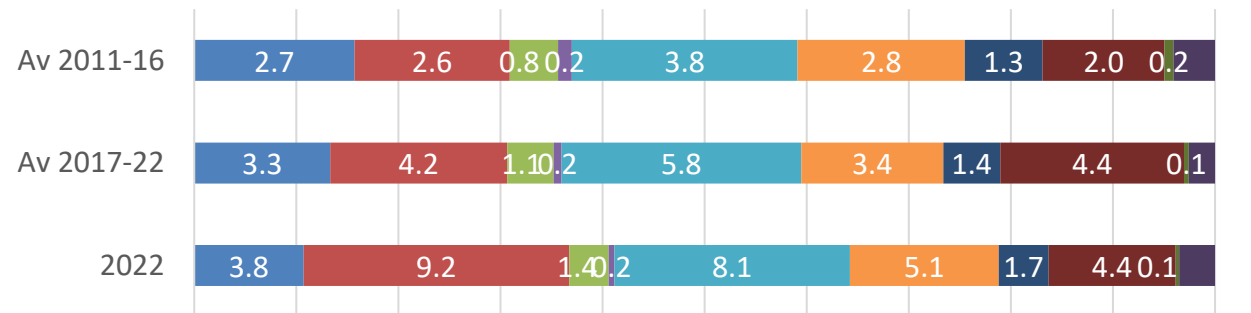
0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%



■ 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
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Sector composition of trade (2)

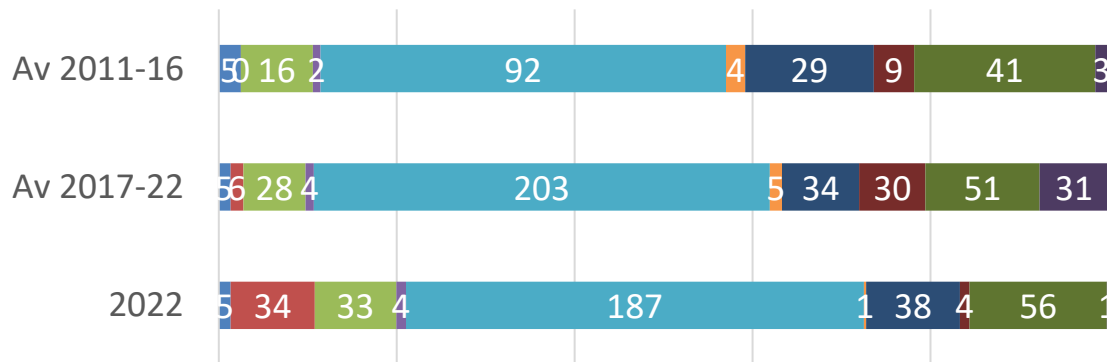
2. The composition of trade varies substantially across SADC EPA States. For **Botswana**:

- EU exports of raw materials (stone = diamonds) are most important, followed by electronics, machinery, chemicals. Volatility of smaller sectors
- EU imports are dominated by stone (diamonds), with very limited other trade

EU-Botswana trade by broad sector (€ million, %)

EU exports to Botswana

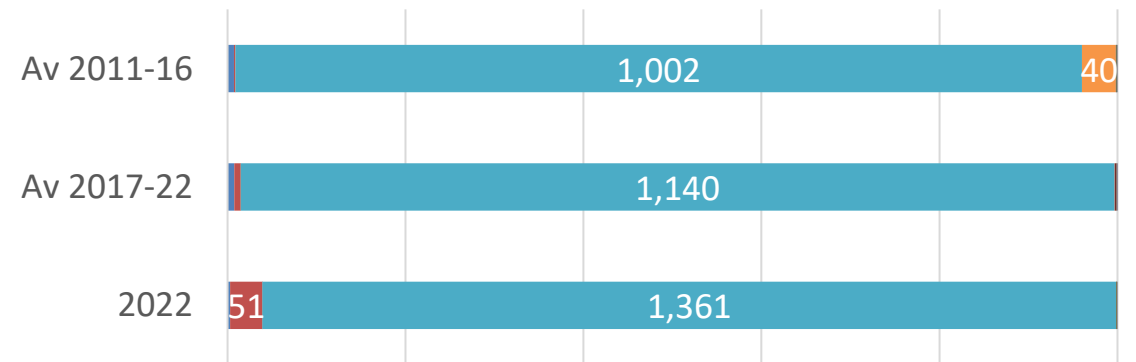
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EU imports from Botswana

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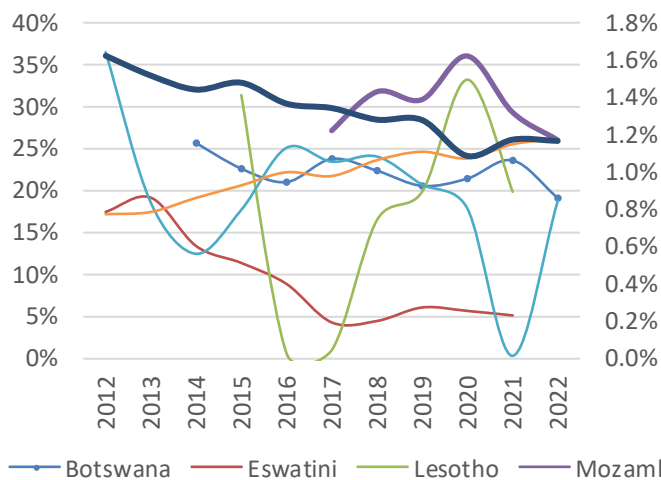
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Bilateral trade in context

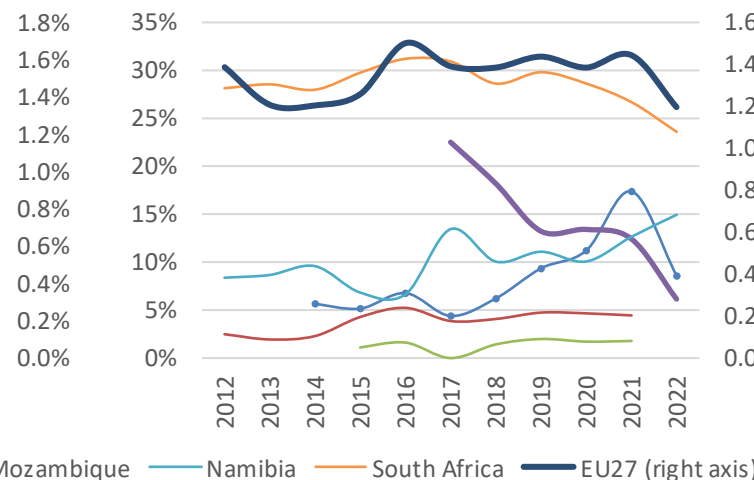
1. Despite the EPA, SADC EPA States have lost some importance as a destination for EU exports in the longer term (in relation to the EU's total extra-EU exports)
2. The EU's share in most SADC EPA States' exports has remained constant – in line with the continued preferential market access that these exports benefit from in the EU under the EPA
3. Differences across SADC EPA States are large – for **Botswana**:
 - Exports to the EU have developed in line with other markets (except China, UK), imports from the EU were dynamic until 2021 but lost ground in 2022

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

Exports

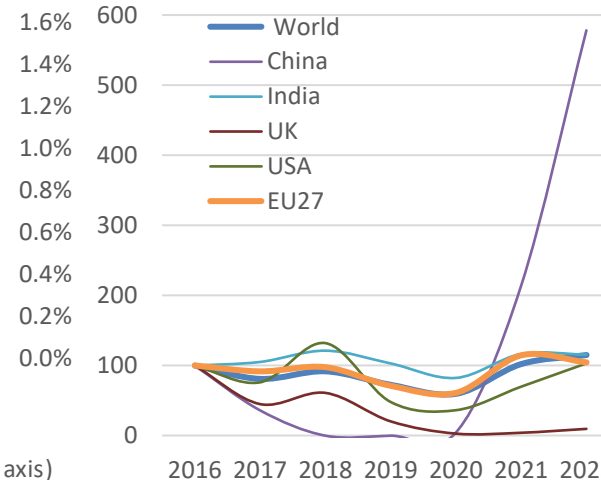


Imports

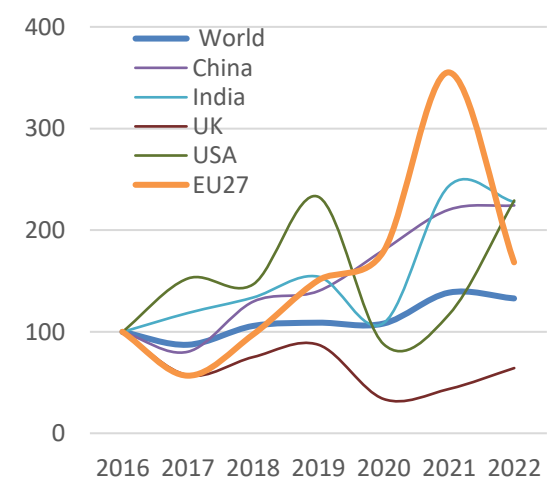


BWA trade w/EU vs trade w/other partners (index, 2016=100)

Exports



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**
 - **Botswana** (0.02%) has below-average gains in real (quantity) terms but stronger gains in GDP value (0.06%) given a positive terms of trade impact.
 - Small impacts reflect the limited trade with the EU (mostly diamonds, which are not impacted)
- **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)
 - Modest welfare gain for **Botswana** (€19 million under Scenario A and € 2 million under Scenario B)
- Impact of scenario B substantially larger for SADC EPA region as a whole
 - But limited differences between scenarios for Botswana (which faces MFN tariffs in the EU under both scenarios)

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 – Botswana Trade with the EU

Botswana's exports to the EU

- Without the EPA, Botswana would have faced the EU's MFN tariffs under both scenarios.
- Apart from the diamond trade, other manufacturing has a small export base to the EU; it makes a modest gain of €3.9 million (+14.8%)
- Trade services (€5.5 million or 8%) also increases sales to the EU, driven by the general income gains

Botswana's imports from the EU

- The only sector experiencing significant import penetration from the EU is wearing apparel: €15.6 million (+66%)

Sectoral CGE results – Botswana 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
- Botswana's largest increases at the sector level are in trade services (reflecting both export gains and domestic sales increases driven by income gains)
- Public services, construction and finance also expand due to domestic income-driven sales
- Other manufacturing converts its bilateral export gains in the EU into a solid gain in total sales (€3.4 million).
- Meat sectors also make modest gains driven by domestic sales.

	Total Exports	Domestic Shipments	Total Shipments
Trade services	6.2	4.0	10.2
Public services	0.0	9.3	9.3
Construction	0.0	6.1	6.1
Ruminant meat	4.2	0.6	4.7
Cattle	0.1	4.1	4.2
Other Manufacturing	3.5	-0.1	3.4
Other prepared Food	0.0	1.6	1.6
Finance services	0.0	1.4	1.4
Other Meat	0.0	1.2	1.2

Sectoral CGE results – Botswana total impact on value of shipments (2)

- Few sectors face negative impacts from the EPA.
- The largest decline in total sales is in commercial services (€3.9 million or a decline of 0.1%).
- Wearing apparel (€3 million or a decline of 2.4%) and motor vehicles & parts (€1.9 million or a decline of 1.7%) also experience headwinds from the EPA.
 - In both cases, this is from reduced domestic sales, but not due to EU import penetration
 - Rather general equilibrium effects (reallocation of production within Botswana) account for impacts

	Total Exports	Domestic Shipments	Total Shipments	
	€ millions	€ millions	-€ millions	% ch
Commercial services	0.0	-3.9	-3.9	-0.1
Wearing apparel	0.0	-2.9	-3.0	-2.4
Motor vehicles & parts	-0.3	-1.6	-1.9	-1.7

Social effects

Context / baseline

- **Key social issues in SADC EPA States (and links with trade)**
 - The economy and export structure of some SADC EPA States are focused on capital-intensive sectors (like mining) which do not create many jobs. Some have high employment shares in subsistence agriculture. Some feature relatively high levels of informal enterprise, with corresponding low levels of productivity and incomes leading to persistent poverty.
 - High unemployment rates persist in the region, one of the reasons being that the private sector is not able to create enough jobs to absorb the people who enter the labour market, incl. youth.
 - SADC EPA States would also benefit from improvement of education quality, including vocational training, to increase people's employability, also in jobs created by trade and investment.
 - There are challenges to effectively implement ratified ILO fundamental conventions, but progress has been made. SADC EPA States have prepared new or revised existing laws (and some of them have been adopted), developed Action Plans (e.g., on the elimination of child labour or human trafficking), provided financial support to poor families with children or have taken other steps.

Findings – Incomes and welfare

- **Building on the economic effects, overall social impacts of the EPA are limited, but they are more pronounced in some sectors, with differences across countries**
 - Key effect for social impacts is the EPA-driven income gain in SADC EPA economies
 - National-level Income gains improve government revenues and provide additional resources to address social concerns.
 - Household income gains act directly on poverty as income gains circulate through the economy
 - Real wage increases help at the individual level.
 - EPA generates positive effects overall at the SADC level, but only marginally so for Botswana (comparing the EPA with a situation where the TDCA would have continued, i.e. scenario A, in 2022)

	SADC EPA States combined	Botswana
Economic Welfare (€ millions)	452	19
Real Wage (unskilled) (% change)	0.225	0.072
Real Wage (skilled) (% change)	0.186	0.061

Findings – SADC EPA States combined

■ Sector-level differences

- At the sector level, thanks to SADC EPA exports to the EU, the contribution of labour increased substantially in sectors such as vegetables, fruit and nuts, sugar, prepared foods, and autos
- Increased imports from the EU may have had a negative effect on jobs in sectors like garments, leather, and rubber and plastics.
- Imports of EU machinery and equipment may support SADC EPA domestic production capacity.

■ Progress in ratification and implementation of ILO Conventions, but no EPA links

- SADC EPA States have ratified additional ILO Conventions in the reporting period.
- Progress has also been made in the implementation of ILO Conventions: new or revised laws have been prepared (and some of them adopted); Action Plans prepared (e.g., on elimination of child labour/human trafficking); poor families with children have received support.
- However, these activities cannot be linked to EPA commitments, but rather domestic policy agenda, other commitments (e.g., SDGs) or cooperation with the ILO under Decent Work Country Programmes.

Findings – Botswana

- **Prior preferential access to the EU market (under GSP) – would have been lost without the EPA (both scenarios)**
 - Botswana's exports would have faced a simple average tariff of 8.28% compared to near-zero under the EPA – but due to diamond exports weighted tariffs would have been much lower
 - CGE model: small wage effects – slightly positive under scenario A, slightly negative under scenario B (trade with the EU under WTO rules)
 - At sector level, CGE model estimates suggest contribution of labour (combined wage & employment) effects in Botswana to be limited except in few sectors (scenario A):
 - Largest gains in ruminant meat (1.9%), other crops (1.0%) and “other manufacturing” (2.3%); overall, gains in sectors representing 88% of total labour (including most services sectors)
 - Losses in textiles (-1.8%), apparel (-2.3%) and auto (-1.5%)
- **Other labour-related developments (legislative, working conditions): no clear link to EPA found so far**

Environmental effects

Context / baseline

- **Key environmental issues in SADC EPA states (and links with trade)**
 - SADC countries share many characteristics including high climate vulnerability
 - Low but rising greenhouse gas (GHG) emissions in all countries, except South Africa where emissions already high
 - Strong environmental concerns linked to mining
- **Key environmental issues in Botswana**
 - Rich biodiversity forms basis of high income from travel and tourism (11.5% of GDP). Over 40% of land surface area is designated as protected area.
 - Low but steadily increasing carbon footprint, especially as result of increase in energy demand which is met through fossil fuels. (2021: 99% electricity from coal)
 - Botswana has abundant natural resources. There are worries of plans for development of new coal mines in response to the demand for coal from EU.

Findings – SADC EPA States

- **Economic analysis indicates relatively limited trade effects of the EPA**
 - No major structural effects identified in relation to a diversification of exports
 - Levels of increase of exports from the SADC countries to the EU as a result of the EPA fairly limited
 - GHG emission increase can also only be attributed to the EPA in a limited manner
- **Environmental developments show no clear causal relation with the EPA**
 - All states have ambitions to reduce GHG emissions compared to business-as-usual developments in their (updated) Nationally Determined Contributions (NDCs) to Paris Agreement
 - Larger part of targeted GHG reductions in all countries subject to multilateral support

Findings – Botswana

- **No scale effect of EPA**
 - Botswana benefitted from preferential access to the EU market before EPA
 - EU's post-EPA non-diamond imports from Botswana were almost 60% lower than imports prior to the Agreement.
 - GHG emissions steadily increased. Post-EPA increase is lower than pre-EPA increase

- **No link between environmental developments and EPA**
 - Limited recent policy developments. Climate Change Policy from 2018 was adopted by Parliament in 2021. National climate change action plan and strategy prioritises development of renewable energy and promotion of energy efficiency. Updated NDC to Paris Agreement is being awaited; no adaptation plan yet.
 - National Ecotourism Strategy requires all tourism to be planned, developed and managed in line with ecotourism principles.
 - No evidence that policy plans and actions are linked to EPA

Human rights effects

Context / baseline

- **Key human rights issues (and links with trade)**
 - SADC EPA States share several issues regarding human rights (e.g. high level of poverty/inequality, high vulnerability to droughts > food security, insufficient protection of informal workers, discrimination, child labour, human trafficking)
 - Strong human rights concerns in some economic sectors, e.g. land & labour rights violations in the extractive sector & agribusiness, child labour (esp. in agriculture)
- **Key human rights issues in Botswana**
 - Challenges regarding implementation of social and economic rights
 - High levels of inequality & unemployment (25.4% in 2022)
 - Challenges related to water availability & access (esp. in certain regions) + pollution from mining and agriculture > right to water
 - Child labour (in herding, farming, domestic work, street work)
 - High levels of GBV, gender equality

Findings – SADC EPA States

- **Economic analysis indicates relatively limited trade effects of the EPA**
 - No major effects identified regarding GDP, welfare and wages
 - Modest increase in employment in all SADC EPA States except South Africa (and Namibia)
 - Increase in exports and production due to the EPA is limited in all SADC EPA States except South Africa
- **Some human rights issues indicate causal relation with the EPA**
 - Limited employment changes in all SADC EPA States, more significant in South Africa and Namibia – mixed impact of the EPA on the right to an adequate standard of living
 - Sectoral effects related to pre-existing vulnerabilities are investigated further

Findings - Botswana

- **Limited effect of the EPA on human rights**
 - Employment changes – mixed but mostly positive impact on the right to an adequate standard of living at sector level (e.g. sugar, other crops, cattle, meat, ruminant meat, other manufacturing / textiles, wearing & apparel, leather, rubber & plastics, motor vehicles& parts)
 - Minor positive impact on right to water driven by decreased production in water-polluting economic sectors (e.g. textiles, wearing & apparel, leather)
 - Minor negative impact on women working in the textile and wearing & apparel sectors
 - No evidence identified so far on link between the EPA & child labour in the cattle sector – further analysis
 - No significant change regarding labour rights
 - No likely impact on land rights
- **No link between human rights developments and EPA**
 - Developments reg. gender equality, children's rights, LGBTQ+ rights but no evidence of link to the EPA

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