

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

Implemented by
a team led by



bkp ECONOMIC ADVISORS

Preliminary findings on the impact of the EPA - overview



Economic effects



Social effects



Environmental effects



Effects on human rights

Economic effects

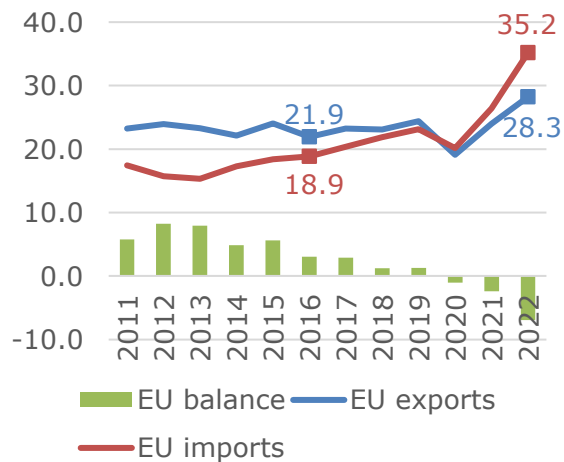
Overview

- **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

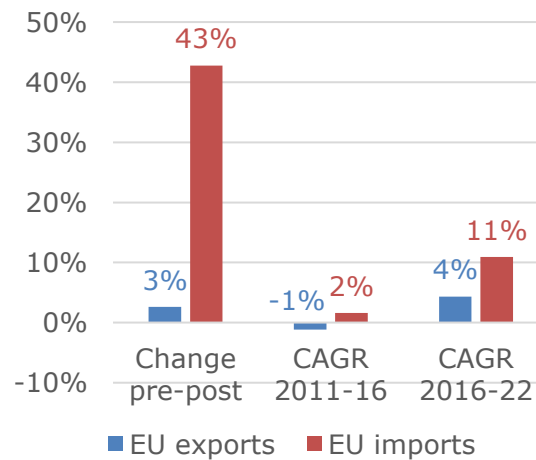
Trade performance over time

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. EU-Namibia trade also increased, and grew faster, since the EPA started to be applied in 2016

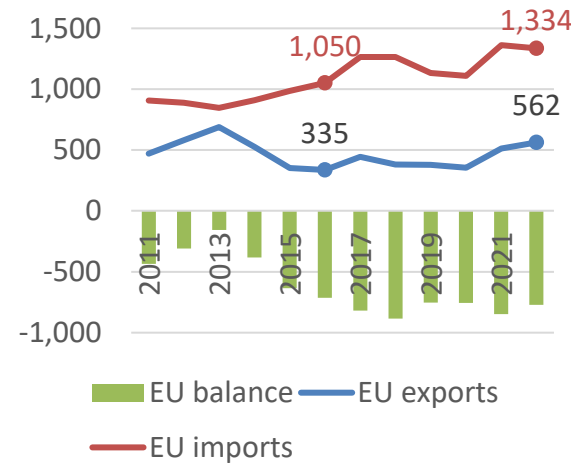
EU-SADC EPA State bilateral trade, 2011-2022 (€ billion)



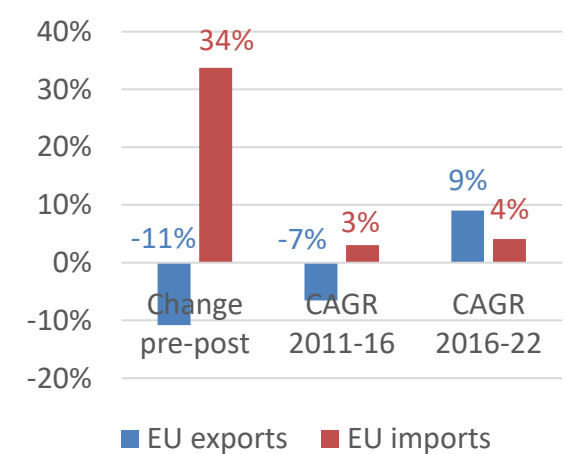
EU-SADC trade growth rates pre- and post-EPA



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



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



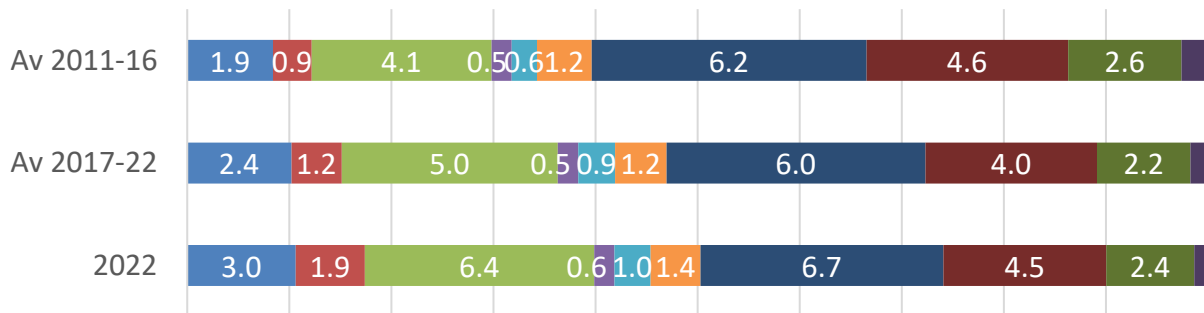
Sector composition of trade (1)

- 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

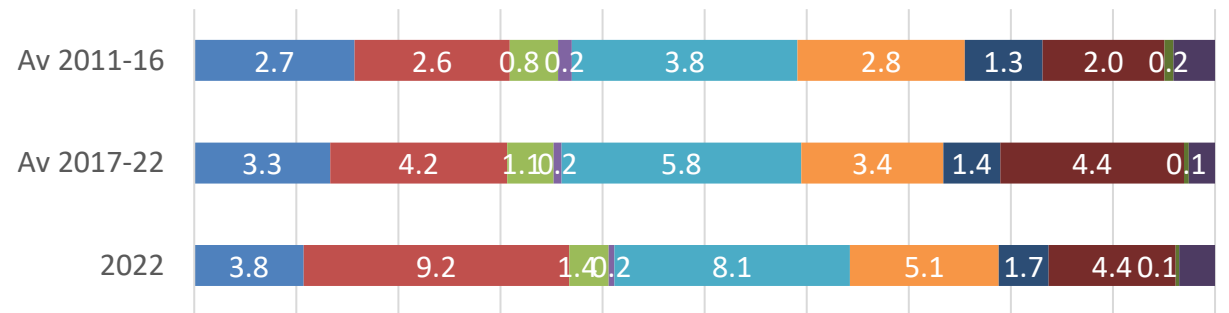
0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%



■ 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

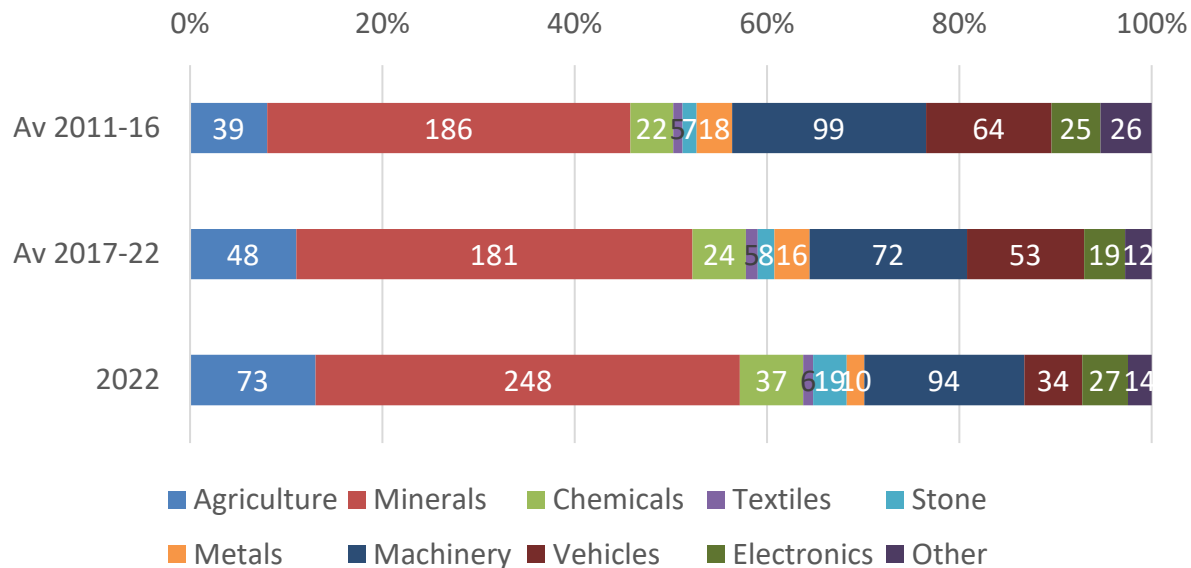
Sector composition of trade (2)

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

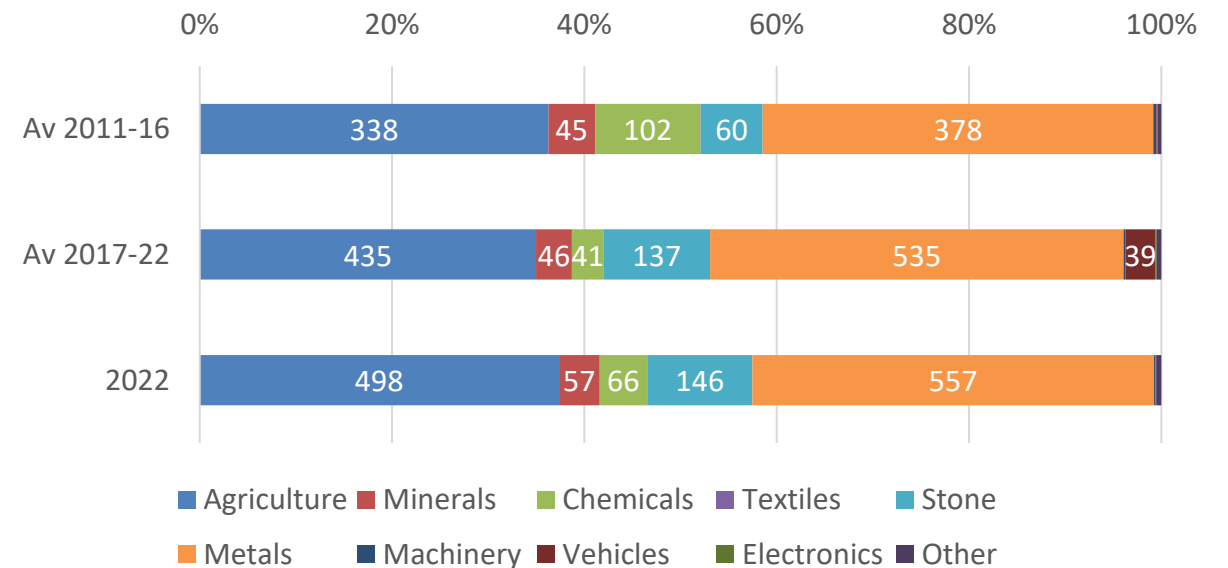
- EU exports of minerals and agri-food have grown strongest; machinery has remained flat
- EU imports are led by agriculture and metals, followed by other raw materials, with limited change in composition over time

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

EU exports to Namibia



EU imports from Namibia

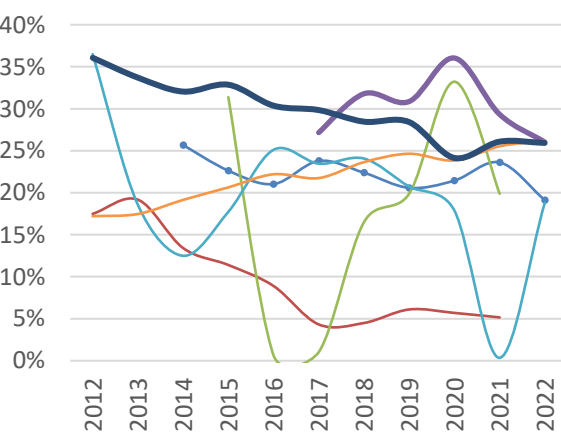


Bilateral trade in context

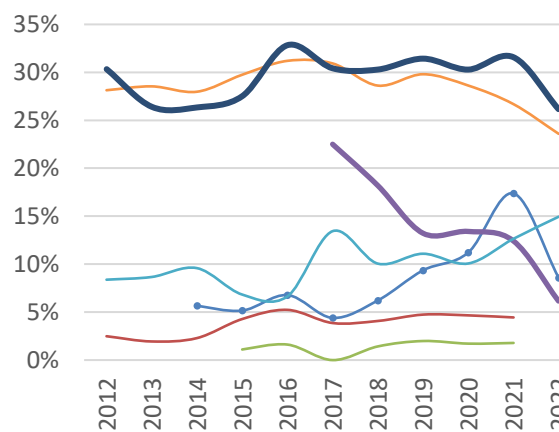
1. Despite the EPA, SADC EPA States have lost some importance as a destination for EU exports in the longer term (in relation to the EU's total extra-EU exports)
2. The EU's share in most SADC EPA States' exports has remained constant – in line with the continued preferential market access that these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

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

Exports

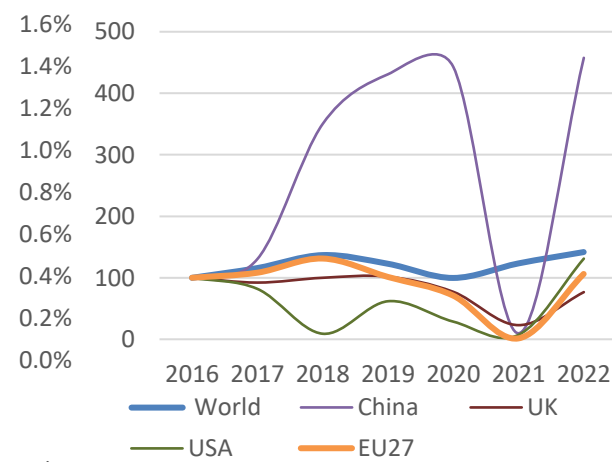


Imports

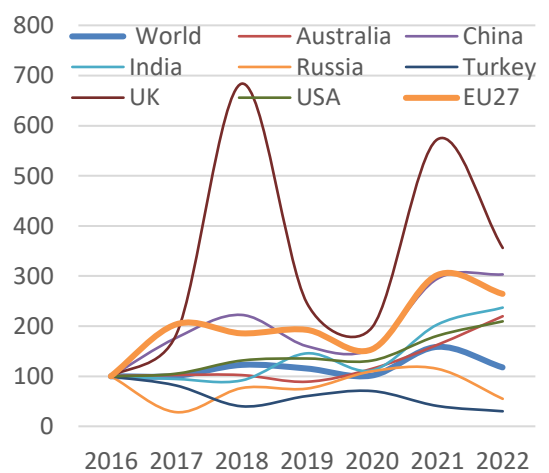


NAM trade w/EU vs trade w/other partners (index, 2016=100)

NAM exports



NAM 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**
 - **Namibia** (0.075%) has above-average gains in real (quantity) terms and very strong gains in GDP value given a positive terms of trade impact (value of GDP rises by 2.1% driven by 1.4% ToT)
- **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 **Namibia** (€149 million) due to positive terms of trade impact and a rise in real wages (1.14% for unskilled labour and 0.31% for skilled labour)
- Impact of scenario B substantially larger for SADC EPA region as a whole
 - But limited differences between scenarios for Namibia (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 – Namibian exports to EU

- Without the EPA, Namibia would have faced the EU's MFN tariffs under both scenarios.
 - Prepared foods make by far the biggest gain in bilateral exports: €152 million (a gain of over 40%)
 - Other sectors with palpable gains are metal products (€58 million or +14%) and chemicals €22 million (+24%)
 - Most goods sectors make strong gains in percentage terms (including 22 with double-digit percentage increases), although mostly from a low base.
 - Commercial services also make a solid gain €12 million; this is driven by the additional economic activity generated by the EPA rather than sector-specific liberalisation
- None of Namibia's sectors see any significant declines in bilateral exports:
 - Minerals sees a modest reduction of €3.3 million (a decline of only -0.63%)

Sectoral CGE results – Namibia’s imports from EU

- Without the EPA, Namibia would have imposed tariffs on EU imports under the TDCA
- Sectors experiencing the most import penetration by EU products as a result of the EPA are shown
- Most sectors in Namibia experience an increase in imports from the EU
 - Increases are significant in percentage terms but typically from a small base
- Commercial services and Finance services see increased imports driven by income gains rather than liberalization

	Bilateral Imports (€ millions)	Bilateral Imports (% change)
Motor vehicles and parts	7.45	28.3
Commercial services	6.86	8.7
Finance services	5.54	8.0
Machinery and equipment	2.52	3.1
Electrical equipment	1.52	4.4
Rubber and plastics products	1.18	15.4
Wearing apparel	1.12	52.0
Wheat	1.11	6.5

Sectoral CGE results – Namibia 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
- Namibia’s largest increases at the sector level are in public services (reflecting income gains)
- The traded sector making the largest gains in total sales is prepared foods – driven by exports to the EU
- Fishing, beverages & tobacco and dairy make limited trade gains but make solid gains in total sales due to domestic sales increases
- Metal products and ruminant meat leverage exports to post solid gains in total sales.

	Total Exports	Domestic Shipments	Total Shipments
Public services	-2.7	161.9	159.2
Prepared Food	133.0	22.4	155.3
Fishing	1.8	60.1	61.8
Metal products	31.5	-1.2	30.3
Beverages & tobacco	2.1	25.8	28.0
Commercial services	0.0	20.1	20.1
Ruminant meat	14.8	2.4	17.2
Dairy products	0.0	13.5	13.6
Vegetables, fruit, nuts	9.5	2.6	12.1
Cattle	7.4	3.9	11.3

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

- Namibia's most negatively impacted sectors are in manufacturing
- These impacts are mainly driven by price effects – the higher real wages create head winds for Namibia's exports
- Other transport equipment is by far the most trade-affected sector
- Motor vehicles and parts is mainly impacted by import penetration from the EU which takes away domestic sales
- Minerals, other meat and other manufacturing also are impacted primarily by reduced exports
- Electronics and rubber and plastics are mainly affected by import penetration.

	Total Exports	Domestic Shipments	Total Shipments	
	€ millions	€ millions	-€ millions	% ch
Other transport equipment	-69.8	-2.1	-72.0	-9.14
Motor vehicles and parts	-2.2	-8.6	-10.8	-3.65
Machinery and equipment	-4.9	-5.6	-10.5	-3.80
Minerals	-9.5	1.2	-8.3	-0.35
Computer/electronic/optical	-1.2	-4.4	-5.6	-2.09
Electrical equipment	-1.1	-3.0	-4.1	-3.78
Other Meat	-3.5	-0.4	-3.9	-2.85
Rubber and plastics	-0.5	-2.9	-3.5	-1.62
Other Manufacturing	-2.5	-0.6	-3.0	-1.84

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 and for Namibia in particular (comparing the EPA with a situation where the TDCA would have continued, i.e. scenario A, in 2022)

	SADC EPA States combined	Namibia
GDP Value Change (€ millions)	474	293
Economic Welfare (€ millions)	452	149
Real Wage (unskilled) (% change)	0.225	1.136
Real Wage (skilled) (% change)	0.186	0.313

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 – Namibia

- **Prior preferential access to the EU market (under GSP) – would have been lost without the EPA (both scenarios)**
 - Namibian exports would have faced a simple average tariff of 8.28% compared to near-zero under the EPA
 - CGE model: relatively strong wage effects: unskilled +1.14%; skilled +0.3% (compared to no EPA).
 - At sector level, CGE model estimates suggest contribution of labour (combined wage & employment) effect in Namibia increased substantially in many sectors:
 - Gains in food processing (10%), red meat (9%), vegetable/fruit/nuts (6%), fishing (5%), leather, metal products (3%), most services.... – total of 36 of 49 sectors saw increased contribution of labour
 - Losses in 13 sectors: other transport equipment (-8%), auto, electrical, electronics (-3%)
- **Examples of other labour-related developments (no clear link to EPA)**
 - Ratification of several ILO conventions: 2014 Protocol to the Forced Labour Convention (No. 29), Conventions No. 81 (Labour Inspection), No. 122 (Employment Policy), No. 151 (Labour Relations), No. 189 (Domestic Workers) and No. 190 (Violence and Harassment).

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 Namibia**
 - High vulnerability to climate change. Increase in drought frequency and intensity in turn negatively impacts vegetation cover and water stress.
 - Rich biodiversity is threatened by continued population growth, unsustainable land management practices and uncontrolled mining
 - Water scarcity is one of the major primary limiting factors to development in Namibia

Findings – SADC EPA States

- **Economic analysis indicates relatively limited effects of the EPA on climate change**
 - Overall: despite increases in output in SADC EPA States not increase in CO2 emissions
 - No major structural effects identified in relation to a diversification of exports
 - Effect on global CO2 emissions negligible
- **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 – Namibia

■ No combined effect of the EPA on GHG (CO₂) emissions

- Namibia real GDP increased above-average for SADC (0.075%), but no apparent scale effect on GHG emissions
- Limited structural change in the economy, hence little impact on GHG through the structural effect
- Caveat: the technology effect, if any, is not taken into account

■ No link between environmental developments and EPA

- *Policy developments:* Updated NDC to Paris Agreement (2021) has ambitious commitment in GHG reduction from energy. Harambee Prosperity Plan II (2021) low carbon growth plan. Ambition is to be Africa's first zero GHG emissions country.
- No evidence that these climate policy actions are linked to EPA, rather seems effect of addressing energy insecurity addressed by strong growth in domestic renewable energy.
- Also no evidence that measures to address other key environmental issues are linked to the EPA. E.g. tackling of wildlife crime or assisting mining industry to address potential environmental impacts.

Human rights effects

Context / baseline

- **Key human rights issues in SADC EPA Region**
 - 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 particular economic sectors: land & labour rights violations in the extractive sector & agribusiness; child labour (esp. in agriculture)
- **Key human rights issues in Namibia**
 - Challenges regarding implementation of social and economic rights
 - Vulnerability to food insecurity (22% of total population face high levels of acute insecurity)
 - Inequality > adverse effects on children (51.3% live in multidimensional poverty)
 - Highly susceptible to water scarcity + pollution from mining and agriculture > right to water
 - Child labour (in farming, fishing, domestic work, street work)
 - High levels of gender-based violence (GBV), gender inequality

Findings – SADC EPA States

- **Economic analysis indicates modest economic impacts of the EPA with implied benefits in terms of right to an adequate standard of living overall**
 - Solid gains in real GDP (0.3%) and welfare (EUR 452 million)
 - Real wage increases 0.225% for unskilled workers and 0.186% for skilled workers: directly contribute to the right to an adequate standard of living
 - Larger increase for unskilled workers suggest greater improvement for lower wage earners
- **Some human rights issues indicate causal relation with the EPA**
 - Change in the contribution of labour, which could indicate job gains or losses, mixed by sector and SADC EPA States
 - Sectoral effects related to pre-existing vulnerabilities are investigated further

Findings - Namibia

- **Main impact of the EPA on human rights is indirect through the impact on jobs and wages which support the right to an adequate standard of living**
 - 34 of 49 sectors accounting for almost 95% of Namibian value-added see improvements in jobs/wages
 - Prepared foods (3.2% of Namibian value-added) +10% in jobs/wages
 - Fishing: (6.4% of Namibian value-added) + 5.4% in jobs/wages
 - Cattle (3.2% of Namibian value-added) + 2.9% in jobs/wages
 - Public services (30% of Namibian value added) +2.8% in jobs/wages
 - Some sectors negatively impacted – these account for only 5.4% of Namibian value-added
 - Most significant negatively affected sector is Other Transport Equipment (0.9% of Namibian value-added) – 8.4% impact on jobs/wages

Findings - Namibia

- **Limited effect of the EPA on human rights in other dimensions**
 - Increase in production in agricultural sectors -> minor positive impact on food security
 - Minor negative impact on right to water driven by increased production in agriculture & coal
 - Minor positive impact on women working in agricultural sectors
 - No evidence identified so far on link between the EPA & child labour in farming – further analysis
 - No significant change regarding labour rights
- **No link between human rights developments and EPA**
 - Developments regarding ratification of ILO conventions
 - Improved women rights & access to water but no evidence of link to the EPA

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



<http://eu-sadc.fta-evaluation.eu>



eu-sadc@fta-evaluation.eu