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The EU-SADC Economic Partnership Agreement: A Regional Perspective

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Introduction

Since 2000, the Southern African Development Community (SADC) has been involved in a double process of integration. On the one hand, SADC member states are cutting their tariffs and non-tariff barriers on their sub-regional imports, in order to create a free trade area (FTA) by 2008. By 2010, a common external tariff should be implemented and a single currency created by 2016. On the other hand, they are negotiating through the SADC an Economic Partnership Agreement (EPA) with the European Union (EU), which should lead to a quasi free trade area between SADC and EU in the years following 2008[1].

This duality of the processes raises many questions. First, what will be the effect of each of these integration processes ? Concerning EPA, the issue concerns not only the trade creation and diversion in the SADC region and in the partners of the SADC countries, but also the change in welfare of the consumers, as well as in the government revenues. Second, one may wonder whether the EPA process will help the SADC to foster its integration, as claimed by the European Union, or whether, on the contrary, it will compete with the regional integration process by reinforcing the economic linkages of the sub-region with the EU, to the detriment of the local partnerships.

The purpose of this study is to assess the impact of the EPA negotiations on the economies of SADC, and estimate the effects of these negotiations on the regional integration process. In this paper, we present the results of a simulation representing a full liberalisation of EU imports in SADC countries, using a partial equilibrium model, WITS-SMART.

The study is divided in four sub-divisions. In the first section, we present the main stakes of the EPA negotiations. In section two, we describe the methodology used. In a third section, we turn to the simulation's results, analysing the effect of EPA on the European trade and SADC economies. Finally, we conclude.

[1] The issue of the length of implementation is a sensitive issue in the negotiations of the Economic Partnership Agreement.

I. Background

1.1 From Lomé to the Economic Partnership agreements

The Cotonou Partnership Agreement (CPA) between the European Union (EU) and the African, Caribbean and Pacific (ACP) countries expected to succeed the expired Lomé Agreement, envisages the signing of Economic Partnership Agreements (EPAs) by December 2007 between the EU and the ACP countries. The EPAs will be the new cooperative framework under the CPA and are expected to adopt an integrated approach based on partnership and promoting cooperation, trade and political dialogue between the EU and the ACP countries. One of the essential characteristics of this multilateral partnership is that it hopes to combine trade (to respond to the challenge of globalization), development aid (essential to ACP countries), and a strengthened political dimension. The key CPA principles are reciprocity; differentiation; deeper regional integration; and coordination of trade and aid.

The EPAs, which are to be CPA development vehicles will address trade barriers, supply-side constraints in the ACP countries, and World Trade Organisation (WTO) compatibility question. EPAs will essentially be Free Trade Area (FTA) arrangements to replace the non-reciprocal trading preferences currently advanced to the ACP countries under the Lomé Agreement with reciprocal arrangements in compliance to the WTO rules of non-discriminatory trading arrangements.

Ideally, in order for the ACP-EU arrangements to be WTO-compatible, the EU would be expected to advance similar preferences to non-ACP countries that are at the same level of development just as the ones being enjoyed by the ACP countries. Thus, unless the EU is willing to extend similar preferences to both ACP and non-ACP countries, then in order not to be challenged on the grounds of discrimination under the most favoured nation (MFN) clause of the WTO the ACP countries under the EPAs will be expected to grant EU originating imports of goods, duty free access into their markets. This will be similar duty free access granted by the EU on selected goods from those countries under the expired Lomé Agreement.

WTO-compatibility requirement does not however mean that the EU cannot unilaterally establish a preference system that favours developing countries without breaching the requirement for reciprocal treatment for EU goods. The Everything-But-Arms (EBA) initiative is one such arrangement granted under the enabling clauses of the GATT/WTO rules that allows developed countries to have favourable preference systems for developing countries without reciprocity. The EBA grants duty-free access to all imports from developing countries that meet the least developed countries criteria. The critical difference between the EBA initiative and the EPAs in terms of trade is that the EBA initiative is non-discriminatory

amongst least developed countries (LDCs) while the EPAs are just for the ACP countries. Further, EPAs envisage a wider level of cooperation other than just trade.

The interim period between the signing of the CPA on 23 June 2000 and the launch of the EPAs by 1 January 2008 is supposed to be the time for the negotiation process about the final form and undertakings in the respective EPAs. There are two phases in the negotiation process. The first phase was launched on 27 September 2002 and has been concluded without any bindings as sought by the ACP countries.

During phase I of the negotiation process, the CPA presupposed that ACP member countries will self-determine an appropriate regional trading arrangement, preferably a regional economic community (REC) under which to negotiate with the EU for a new EPA. The REC could either be a free trade area (FTA) or a customs union (CU). EU's preference for RECs in the negotiations is justified under its stated objective of wishing to use the EPAs in the CPA to deepen the regional integration processes in the ACP countries in the hope that deeper regional integration will facilitate eventually the maximisation of these countries gains from the multilateral trade liberalisation and globalisation. Apart from identifying the membership of countries into rationalised RECs for purposes of EPAs negotiations with the EU, the ACP countries expectations under phase I were actually not met since their desire to have a binding common framework from this phase of the negotiations was not attained. Instead, the framework for negotiation of ACP-wide issues remained unresolved. The key issues remain: compatibility with the WTO rules; treatment of non-LDCS at the expiry of the Cotonou Agreement if the EPAs are not concluded; liberalisation of rules of origin; technical barriers to trade and the sanitary and phyto-sanitary issues; safeguards, anti-dumping, and dispute settlement; EU-ACP existing commodity protocols; economic and social implications of the EPAs; and the EPAs implementation mechanisms.

The second phase was to be undertaken on regional basis and began on October 2003 with Western and Central African regions and started in 2004 for the other African regions (East and Southern Africa). In April 2004, the EU held a meeting in Mombasa, Kenya with the Eastern and Southern Africa group to launch the negotiations.

Although the EPAs are expected to generate enormous benefits to ACP countries, these will not materialise spontaneously and instantaneously. Moreover, the implementation of EPAs is likely to impose a number of severe challenges for ACP countries including:

(a) How to manage the expected losses of fiscal revenue in some of the ACP countries;
(b) How to cope with more competition arising from the application of the principle of reciprocity of the EPAs;
(c) How to ascertain net benefits from the EPAs, especially in LDCs, that is, incentive compatibility between EPAs and the EBA provisions that do not require reciprocity;

(d) How to deal with limited negotiating capacity because EPAs negotiations will stretch the already limited resources available to the ACP countries;
(e) How to ensure consistency between the negotiations under the EPAs and that under the Doha Work Programme (DWP), in particular, how to improve market access for agricultural and non-agricultural products that continue to impose difficulties in trade negotiations at the multilateral level.

Given this background, it is evident that there is need for in-depth analytical work, among other things, if African member States in RECs and the RECs themselves are to reap maximum benefits from the new cooperation framework. This study is therefore designed to contribute in this required analytical work in order to seek ways for maximising gains for Africa from the EPAs. Moreover, the study will play a crucial role as an indispensable building block for eliciting common negotiating positions of Africa both at sub-regional and regional level as the EPA negotiations pick momentum. While the study will mainly contribute to effective participation of African countries in the new ACP-EU framework, it will also expedite Africa's participation in the EPAs trade negotiations.

1.2 The situation of SADC in the negotiations with the EU on the EPA

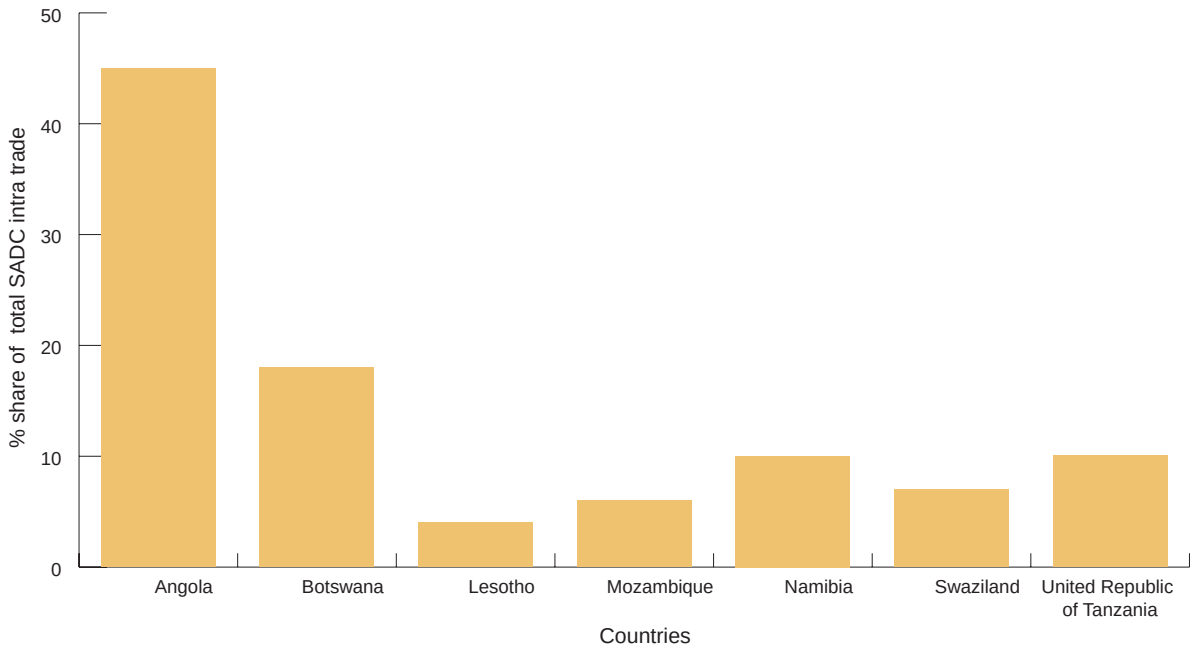
The fragile dynamic of regional integration in the SADC

SADC is involved in an active regional integration process. SADC was created to counterbalance the influence of South Africa in the region and was transformed into a development community only in August 1992 with the Treaty of Windhoek. The integration process has been focused on relaxing the supply side constraints to trade through regional cooperation in sensitive sectors such as infrastructure, agriculture, transportation and human resources. Implementation of the SADC Trade Protocol, which was signed in 1996, began in September 2000. Eleven of the 13 SADC member states have joined the Free Trade Area (FTA). The SADC Trade Protocol, which is based on negotiations and offers by member states, aims for liberalization of all trade by 2012. Member countries have agreed to liberalize 85 percent of intra-SADC trade by 2008 and liberalize sensitive products by 2012. A small number of sectors are not concerned by this liberalization process (narcotics, precious and strategic metals such as gold, silver, platinum, second hand goods, and some others for environmental reasons).

This FTA is expected to provide significant impetus to the process of economic integration and development in SADC. At present SADC attracts only one per cent of global foreign direct investment (FDI). With the implementation of the SADC Trade Protocol and the formation of a regional economy, SADC is expected to become a more attractive investment destination (SADC Summit 2000).

As a result of this process, intra-SADC trade has been growing in the past ten years. Accordingly the total intra-trade has reached 25,4 billion USD in 2002 from 16,1 billion USD in 1990, which is a 36.6% increase. Out of the total intra-SADC trade Angola, Botswana and Tanzania share 47%, 18% and 10.09% respectively.

Fig 1.Share of trade of SADC countries(2002)



However, the SADC integration process also faces difficulties. There is a concern that the effective pace of liberalization has been slow according to Kritzinger-van Niekerk et al. (2002). Another important issue is that the rules of origin in SADC have gradually become restrictive and product-specific under pressure from member states. On that issue, negotiations are still ongoing, which is probably indicative of a lack of political commitment to liberalization (see Khandelwal (2004)). Unfortunately, restrictive rules of origin are likely to increase administrative costs and will make limit the benefits of the SADC preferences.

In the same vein, Khandelwal (2004) shows that not much progress has been made in the areas of the elimination of NTBs and the liberalization of services, in spite the fact the FTA agreement calls for it. This author underlines that no institutional mechanism for reporting of NTBs or resolution of disputes exist, and qualifies the liberalization of services a "futuristic" provision. Even on merchandise trade, the liberalization process has been uneven with member states, especially as Tanzania, Zambia, and Zimbabwe have been lagging behind.

Furthermore, Khandelwal (2004), as well as Yeats (1998), have demonstrated that products

complementarity[2] is quite low in the SADC sub-region, which tend to prove that the potential trade expansion within SADC remains limited.

Given the fragility of the SADC integration process, one may wonder whether the EPA reform is opportune. Will it help the SADC countries to foster their integration or will it lead to a diversion of trade, investments and partnership from the SADC to the EU ?

The issue of fiscal losses

EPA will act as a quasi FTA between SADC and the EU. Such as, it will lead to a drop in the customs revenues on the imports from the EU. The elimination of this fiscal source will imply either to find a new fiscal basis in SADC, or to cut public expenditures. Replacing tax revenues is a sensitive issue. In this perspective, Baunsgard et al. (2004) have demonstrated that most low-income countries have not been able to replace lost trade tax revenue from other revenue sources. In the case of the SADC FTA, Chauvin et al. (2002) have estimated the revenues losses to 6% of the total revenues. Thus EPA may add to the effect of the SADC FTA, and lead to an unbearable reduction in the custom revenues of the SADC member states. As these customs revenues represent a significant part of the total revenues of the SADC member states, the ability of this sub-region to improve its socio-economic policies could be seriously hampered. It is particularly true for countries like Lesotho, Namibia and Swaziland, where customs revenues represent more than a third of the total revenues.

Table 1:Customs revenues in the SADC

	Customs revenues out of GDP	**Customs revenues out of total revenues**
Angola	...	...
Mozambique	2.2	18.9
Botswana	7.7	18.1
Lesotho	18	58
Namibia	12.1	38
Swaziland	15.3	55.2
Tanzania	1.3	11.6

[2] Products complementarity is a measure of similarities between the export basket of one country and the import basket of another. The higher the index between two countries, the bigger the product complementarity.

II. Methodology: The Partial Equilibrium Modelling Framework – the WITS/SMART Model

2.1 Why a Partial Equilibrium Model?

It was argued in a previous section that trade policy analysis is more robust when undertaken within a general equilibrium modelling framework. This can be seen as the first-best option as general equilibrium models, not only measure the first-round effects of simulated changes, but also the second-round effects which include inter-industry effects and macroeconomic adjustments. However, as has been indicated in the discussions on the GTAP modelling and database frameworks, majority of the African countries are not individually captured in that methodology due to lack of data disaggregation. Only a few which have been presented in the previous section as individual stand-alone countries while the rest are part of composites of countries viz. the rest of SACU, rest of Southern Africa, and Rest of sub-Saharan Africa. Consequently, the partial equilibrium modelling framework presents itself as a second-best option for those countries that are not captured individually in the GTAP database. This section therefore describes the partial equilibrium modelling methodology that will be used in the study to complement the GTAP results. The main distinction that should be noted at the outset is that as a partial equilibrium model, the inter-sectoral implications (second-round effects) of a trade policy change are not taken into account, as is the case in the general equilibrium model. Similarly, the inter-regional implications such as within a REC setting are also ignored in a partial equilibrium framework. The only point of convergence of the partial and general equilibrium models is that it is still possible within a partial equilibrium model to analyse the trade policy effects on trade creation and diversion, welfare and even on tariff revenues while holding everything else constant.

Milner et al. (2002) in providing a simple analytical framework explaining the theory behind partial equilibrium modelling, notes that to adequately capture the inter-actions between sectors and elasticities of substitution between factors, and to simulate dynamic effects in their EPA study between the EU and the East African Community, a general equilibrium model would be desirable. However, due to scarcity of individual and regional CGE models for developing countries then partial equilibrium models would be alternative choices. Milner et al. (2002) also raise a valid observation that the database for general equilibrium models lacks the commodity detail to take account of the specific sensitive and special products that are of interest to both the sub-Saharan African countries and the EU in this particular case. A partial equilibrium framework is in a better position in spite of its shortcomings to allow for the utilisation of the now widely available trade data at the appropriate level of details that would allow for the principle of special and differential treatment to be captured in the simulation analysis. It however remains true that although partial equilibrium models have drawbacks, as a modelling approach they have the advantage of working at very fine levels of details such as at tariff line level.

2.2 The WITS/SMART Model

For the purposes of this study, it is proposed that the WITS/SMART model will be the applied partial equilibrium framework. The World Integrated Trade Solution (WITS) brings together various databases ranging from bilateral trade, commodity trade flows and various levels and types of protection. WITS also integrate analytical tools that support simulation analysis. The SMART simulation model is one of the analytical tools in WITS for simulation purposes. SMART contains in-built analytical modules that support trade policy analysis such as effects of multilateral tariff cuts, preferential trade liberalisation and ad hoc tariff changes. The underlying theory behind this analytical tool is the standard partial equilibrium framework that considers dynamic effects constant. Like any partial equilibrium model, it has these strong assumptions allowing the trade policy analysis to be undertaken a country at a time. In spite of this weakness, WITS/SMART can help estimate trade creation, diversion, welfare and revenue effects for those countries whose data is available[3].

[3] The SMART model and WITS database are described in annex 1.

III. The EU-SADC Economic Partnership Agreement

3.1 The impact of the EPAs for the European Union

This section looks at the trade creation the EU countries could enjoy under a full liberalisation of their access to the SADC markets, and the way this trade creation could be distributed among sources and destinations countries.

Which European countries would get the highest trade growth in the SADC region ?

For negotiations purposes, it is interesting to look at which EU countries are bound to benefit the most from the SADC tariff elimination. In total, the 25 EU countries could gain USD 350,8 million of increased exports to SADC countries. The table below shows clearly that the largest gainer will be Portugal (32% of the additional exports), France (12% of the additional exports), followed by the UK (12%). Together, these three countries plus Italy (9%), Belgium (8%) and Germany (7%) should reap-up 80% of the increased exports to SADC. On the contrary, the ten newly acceded countries, as well as Austria, Finland, Greece and Luxembourg would obtain less than 1% each of this increase in exports.

Such information might be of interest for SADC countries in identifying which EU countries will have the greatest stakes in negotiating an EPA with them[4]. These EU countries will have a decisive role in the negotiations on the non-trade aspects of the EPA, including the aid package.

Table 2: Share of each UE countries in the increase in exports to SADC

EU exporter	Additional exports	% out of total additional exports
Portugal	113,000.5	32.2%
France	41,674.6	11.9%
United Kingdom	40,761.4	11.6%
Italy	32,508.5	9.3%
Belgium	26,878.1	7.7%
Germany	25,909.8	7.4%
Netherlands	19,900.4	5.7%
Spain	16,781.0	4.8%
Sweden	11,856.0	3.4%

[4] For a more precise evaluation of the stake represented by the increased exports for the EU members, it would be interesting to compare them to the total exports of these countries.

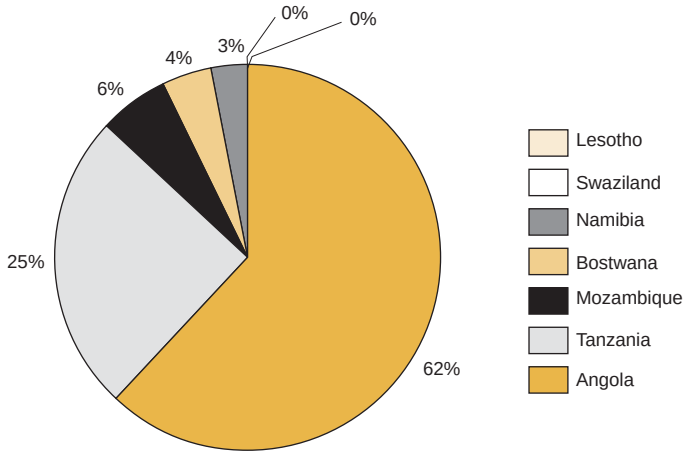
EU exporter	Additional exports	% out of total additional exports
Denmark	8,792.4	2.5%
Ireland	3,454.7	1.0%
All the other EU		
Countries represent		
Less than 1% out		
Of additional exports		

Which SADC countries will be the most affected by the European trade growth ?

One can also look at the respective size of each SADC country in the additional exports from the EU in case of liberalization. This shows where in SADC the EU country will gain the most in additional exports. This is also informative for the negotiations process as it shows which SADC countries will have a strong say in the negotiations.

The relative importance of Angola (62% of increased EU trade) is very obvious. With less than half the additional exports from the EU to Angola, Tanzania comes second at 25% of the increased exports. Thus, Angola and Tanzania together represent 87% of the increased exports for the EU, they will therefore probably enjoy a relatively important negotiating power in the negotiations on EPA. Mozambique, Bostwana and Namibia would take up respectively 6%, 4% and 3% of the EU's gains in exports to the region. The other countries joined together would represent an increase of 1% of exports to the Southern region.

Figure 2: Geographical repartition of total EU exports gains (%)



What does EPA imply for the market shares of the EU in the SADC sub-region ?

What relative size in the EU exports do these changes represent? This information is displayed in the below table, which shows by how much would present EU exports level rise in case of EPA.

Among SADC countries, the differences in the relative increases in EU exports are not very important (around 17% between the two extreme Angola and Tanzania). Southern-African countries are less open to the EU imports than other parts of Africa. However, the market share of the EU in this African sub-region would increase significantly, growing from 28% to 33%.

Table 3: Increase in EU exports to individual SADC countries after EPA (%)

Country	% Increase in EU Exports after EPA
Tanzania	34%
Swaziland	32%
Namibia	29%
Lesotho	28%
Mozambique	24%
Bostwana	22%
Angola	17%

Source : simulation ECA, WITS-SMART

3.2 The impact of EPA on the SADC sub-region

This section looks at the likely trade diversion impacts of an EPA on SADC countries. It starts with a presentation of the losses in intra-regional trade incurred by the SADC countries, due to the substitution of their exports by EU products. Then it will attempt to identify the vulnerable products for SADC countries in the EPA negotiations. These products are the one that would suffer the most intensively of EU competition and that would be displaced from Southern African markets by EU exports.

Trade diversion in SADC

Trade diversion would be reflected by the quantity of exports that is being replaced by EU products after liberalization. After liberalization, EU products become cheaper and may therefore replace products from other SADC countries or from the rest of the world. The simulations realized with the WITS-SMART model have revealed that:

1. SADC is the Sub-Saharan Regional Economic Community where the EPA is going to have the less significant impact in absolute value, with a trade creation six times smaller than in ECOWAS, and

a trade diversion roughly five times smaller.

2. However, it is also the REC where trade diversion is the most significant compared to trade created, with a ratio (trade diverted/trade created) of 0.29.
3. The intra-SADC trade, which excludes the trade with South Africa, seems to be practically unchanged after EPA, with a decrease by less than one USD million (USD 723,027). This drop, which represents less than 1% of the total trade diversion, is due to the polarization of the exchanges of SADC with South Africa.

Table 4: Trade creation versus Trade diversion effect

	Trade Creation	Trade diversion	Intra-REC diversion	Trade diverted per unit of trade created
SADC	272,275,012	-78,367,753	-723,027	0.29
ECOWAS	1,504,388,221	-361,580,864	-31,083,501	0.24
COMESA	909,872,405	-242,684,069	-14,079,050	0.27
CEMAC	607,886,815	-87,319,783	-1,550,520	0.14

Thus, the low level of trade diversion inside SADC is due to the fact that the trade between the trade between these members and South Africa is included in the trade with the rest of Africa, as South Africa does not negotiate EPAs with the European Union. However, South Africa is an active partner for the considered countries and contributes to the regional integration at a significant level. The EPA would imply a drop of 1.4% of the exports from South Africa to the SADC countries.

Table 5: Trade diversion from South Africa

Angola	-18,447.6
Bostwana	-3,221.1
Mozambique	-4,284.3
Namibia	-3,341.3
Swaziland	-373.3
Total	-29,667.6
% of total trade diversion	-38%
% of the initial level of	-1.4%
the exports of South Africa	

Most of the diversion will originate from the Angolan and Tanzanian markets. Almost half of the total trade diversion will be due to trade diversion in Angola. 59% of the intra-African trade trade diversion will also result from the Angolan trade diversion, while 84% of the intra-SADC trade diversion will occur in Tanzania.

Table 6: Trade diversion in Southern Africa in case of EPA

	Total Trade diversion	Diversion In SADC	In Rest of Africa	In Rest of the World	% of trade diversion originating from SADC	Geographical repartition of SADC trade diversion
Angola	-39,002	-95	-18,849	-20,058	0.2%	13.2%
Tanzania	-25,091	-607	-1,968	-22,516	2.4%	84.0%
Mozambique	-5,869	0	-4,308	-1,560	0.0%	0.0%
Botwana	-4,078	-6	-3,246	-826	0.1%	0.8%
Namibia	-3,792	-13	-3,351	-428	0.3%	1.8%
Swaziland	-506	-1	-374	-131	0.2%	0.1%
Lesotho	-30	0	-1	-28	0.4%	0.0%
TOTAL	-78,338	-723	-32,095	-45,519	0.9%	

Source: Simulation WITS-SMART, ECA

Vulnerable products at the regional level

Table seven presents the value in dollars of the fall in exports for these goods, and provides for each good the share of the overall decline in exports due to trade diversion.

This approach provides an indication of the sectors in which the countries will lose in export revenue term. It could also have been interesting as an alternative, to look at the products for which the rates of fall in exports after the EPA are the strongest and to crosscheck such products with those for which the countries have a comparative advantage.

From our calculation, it appears that more than sixty percent of the overall decline in export revenue in case of an EPA would stem from reduced exports in Beverages, spirits and vinegar (HS chapter 22). Most of this loss would occur in the export of Namibia in Angola.

Other products for which Southern Africa could be subject to a sizeable fall in its export revenues due to trade diversion include:

- Vehicles o/t railw/tramw roll-stock, pts & access (almost a million dollars)

- Furniture; bedding, mattress, matt support, (-650 000 $US)
- Miscellaneous chemical products (-431 000 $US),
- Dairy products and eggs (-694 000 $US),
- Nuclear reactors, boilers, mchy & mech appliance (-300 000 $US),

Some of these products may have a significant content in local input, and their demise on local markets might very well have important negative consequences up-stream in the economy of the region (Industrial sector). Overall, the region could lose more than 13 millions US dollars in terms of revenue exports. The decline in exports in these products could also have a significant negative impact on the poorest categories of Southern-Africans, including on rural workers. Such potential effects ought to be further investigated in order to select the products that SADC countries could exclude from liberalization in the Economic Partnership Agreement with the EU.

Table 7: Vulnerable Product in case of EPA with the EU

H.S. Chapter	Product description	Exports before EPA in US$ '000	Fall in Exports after EPA in US$	Variation in exports after EPA in %	Share of each HS chapter in overall fall in exports
HS.22 Total	Beverages, spirits and vinegar.	54694.183	-7970.831	-14.57%	61.14%
HS.87 Total	Vehicles o/t railway/tramway roll-stock, pts & access	18063.967	-968.588	-5.36%	7.43%
HS.94 Total	Furniture; bedding, mattress, mattress support, cushions	9941.935	-649.588	-6.53%	4.98%
HS.21 Total	Miscellaneous edible preparations.	3807.619	-431.154	-11.32%	3.31%
HS.84 Total	Nuclear reactors, boilers, machinery & mechanical appliances;	9761.352	-302.254	-3.10%	2.32%
HS.33 Total	Essential oils & resinoids; perfume, cosmetic/toileteries	18422.268	-290.793	-1.58%	2.23%
HS.85 Total	Electrical machinery & equipment, parts thereof; sound record	9040.27	-223.985	-2.48%	1.72%
HS.32 Total	Tanning/dyeing extract; tannins & derivs; pigm et	1099.057	-219.473	-19.97%	1.68%
HS.40 Total	Rubber and articles thereof.	3877.901	-199.167	-5.14%	1.53%
HS.11 Total	Prod.mill.indust; malt; starches; inulin; wheat g	1840.42	-144.045	-7.83%	1.10%
HS.73 Total	Articles of iron or steel.	6492.454	-139.346	-2.15%	1.07%
HS.19 Total	Prep.of cereal, flour, starch/ milk; pastrycooks'	9486.993	-131.938	-1.39%	1.01%
Grand Total		207721.394	-13037.866	-6.28%	100.00%

Source: Simulation WITS-SMART, ECA.

3.3. Impact in terms of revenues and welfare

Revenues implications

As would be expected, the elimination of tariffs for EU-sourced imports in SADC countries would harm the government revenue positions in these countries. The extent of revenue shortfall as a result of the import duties foregone on EU exports into the region varies across the countries as indicated in the Table below. But, it is in the large economies and also most open economies that the revenue crunch is highest. Angola will have to forego up to US$103 million. Tanzania also will be adversely affected in terms of revenue collections, as its revenues based on the EU-imports base will go down by US$32 million. In a few of the countries, the revenue foregone is not significant in value terms.

Table 8: Revenue implications of a EU-SADC EPA (US$)

Country	Revenue Shortfall
Angola	-103,254,613
Bostwana	-5,232,995
Lesotho	-256,314
Mozambique	-7,640,140
Namibia	-3,831,993
Swaziland	-844,140
Tanzania	-32,490,659
Total	-153,550,854

This is particularly the case for Lesotho that is estimated will forego only about US$0.3 million. Probably at this point, another weakness of the WITS/SMART approach to measuring revenue shortfalls needs highlighting. The revenue loss indicated relates to imports tariff revenues. In reality, the increased imports presented earlier resulting from trade creation are in most countries subject to indirect taxes such as the VAT. As such, as long as there is rapid increase in the volume and value of imports into the SADC countries, and these countries have indirect taxes such as VAT for whom imports form part of the base, then the revenue shortfall described should taper-off. However, unless the elasticity of the VAT and indirect taxes is significantly higher than that for import duties, it is unlikely that the additional indirect taxes revenues will outweigh the revenue foregone from the import tariffs. In some countries such as Angola and Tanzania, the bulk of the loss of revenues comes from the elimination of tariffs on consumer goods (Transportation, oils, beverage). It should not be technically difficult to replace an import tax by an excise duty in such a case.

Nevertheless, in terms of evaluating the EPAs for SADC countries at least, it can be noted that the

revenue foregone is likely to have negative impacts on other government programmes. When this is combined with the feature of the reciprocal principle of undermining regional integration, one is left with a picture that goes beyond the normal international trade theory arguments. The question about the significance of non-economic reasons for integration comes into play, while at the same time; the cost of the EPAs is magnified through the revenue losses.

It is therefore necessary to look closer at the real weight of such a revenue loss on Government's finance. The following table shows how much of their total revenue the Southern African Governments could lose after the EPA.

Table 9: Weight of the tariff revenue losses by country[5]

	% GDP	% Trade Revenue	% Public revenues
Angola	-0.6%	-42.7%	-2.4%
Bostwana	-0.1%	-1.5%	-0.2%
Lesotho	0.0%	-0.3%	-0.1%
Mozambique	-0.2%	-9.5%	-1.5%
Namibia	-0.2%	-1.5%	-0.5%
Swaziland	-0.1%	-0.7%	-0.4%
Tanzania	-0.3%	-25.9%	-2.3%
Total	-0.4%	-12.2%	-1.6%

The losses are the most significant for the two major economies of the sub-region, Angola and Tanzania. On average for 7 countries, the loss of tariff revenues as a share of total government revenue is equal to 1.7%. This is a significant amount for countries that are already struggling with debts and have to invest heavily if they are to reach their poverty reduction objectives. However, this amount is less significant than in the other Regional Economic Communities, as the countries of the sub-region are more advanced in the trade liberalization process.

Welfare implications

The welfare implications of the EU-SADC EPA as measured by the changes in the consumer surplus are contained in Table 10. The consumers in the SADC countries will derive significant gains from the EPAs as they will have access to goods at lower prices. This is based on the assumption that EU producers and exporters will not be pricing to market. In other words, there is an implicit assumption that the EU exporters and the SADC importers will pass on the benefits of the tariffs reduction to the

[5] Sources on Government revenues : IMF country statistical index. Exchange rates are extracted from Development indicators for Africa, World Bank 2004. The years selected are the same as the ones of the simulations, whenever possible, otherwise the closest year. We did not include in the table those countries for which the gap between the simulations and the budgetary information is more than two years.

SADC consumers. If the benefits for tariff dismantlement are not passed on to the SADC consumers, it is possible that there will be no increase in consumer welfare. While the rate of decline of the prices of EU exports to SADC remain unclear, in this exposition and in the results discussed for this region, it is assumed that prices fall concomitantly to the easing of tariff rates, resulting in consumer benefit for the trade creation.

However, it should be noted that the overall economic welfare effects are not clear within a partial equilibrium modelling framework since producer surplus changes especially due to supplanting of domestic producers by the EU producers has not been captured in this analysis. Nonetheless, the big economies of SADC that is, Angola, Tanzaniaa and Mozambique experience substantial consumer surplus gains.

While recognising the weakness of the consumer surplus as a proxy for welfare implications of the EPAs, the partial equilibrium results tell only part of the story. Indeed, increased imports through trade creation do not only benefit consumers in the SADC region. In addition to this are potential gains likely to emanate from embodied technologies in some of the imports, that might eventually be welfare enhancing. This will however depend on whether or not capital equipments and machineries and such imports that tend to have embodied technologies are already zero-rated as tends to be the case in most countries.

Table 10: Welfare (consumer surplus) implications of a EU-SADC EPA (US$)

Country	Consumer Surplus
Angola	14,940.26
Bostwana	365.74
Lesotho	68.49
Mozambique	1,698.08
Namibia	246.53
Swaziland	77.17
Tanzania	8,180.42
Total	**25,576.69**

As was the case of trade effects (creation and diversion), the outcomes through EPAs reciprocity will depend on the initial conditions. Therefore, for countries like Lesotho and Swaziland, which have been fast trade liberalisers, the welfare implications might seem small because the required changes to reciprocate EU preferences are not major. Ultimately though, all the SADC region countries are likely to experience positive consumer welfare but whether the net welfare gain will remain positive, depends both on whether the supplanted producers in the region experience welfare gains outweighing producer

surplus losses. The overall welfare will also include the losses of tariff revenues for the Governments.

We could also add here that some of the trade diversion to the rest of the World might affect other African nations, sometimes neighbouring countries of SADC. The lost revenues of exports in these neighbouring countries might induce, in turn, a fall in these countries imports in goods, including from goods originating in SADC. Such effects would not be accounted for in a partial equilibrium model such as the one used here.

IV. Conclusion

The Economic Partnership Agreement between SADC and the European Union would induce a significant trade creation for the EU, estimated at USD 351 million. This increase will be associated with a trade diversion of USD 78 million, which is very significant in regard of the trade created, especially if compared to the level of trade diverted for the trade created in the other Regional Economic Commission. This trade diversion will not significantly affect the SADC countries, but it will focus on the trade between SADC countries and South Africa (38% of the trade diverted), meaning that regional integration will suffer from EPA.

As SADC is a sub-region more open than other African sub-regions, the impact of EPA on the revenues of the governments of this sub-region is less important than in the other sub-regions. It is still significant, as the public revenues should go down by 1.6% after the EPA. In terms of welfare, the consumer surplus, which amounts to USD 26 millions will not be noticeable.

Hence, the EPAs should have a less significant impact on the SADC economies than it should have on the other RECs economies. This is true for its negative effects, such as public revenues losses or trade diversion, as well as for its positive effects, such as trade and welfare creation. These tempered effects, largely explained by the high level of openness of the SADC economies, cannot hide the fact that a full reciprocal scenario would be harmful for the fiscal balance and the regional integration of the SADC economies, which are very sensitive issues for the future of this sub-region.

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ANNEXES

Annex 1: The WITS/SMART Model

Trade creation

The underlying theory is summarised below for the estimation of the trade flows and revenue effects. The exposition of the WITS/SMART theory is summarised from Laird and Yeats (1986). Trade creation captures the trade expanding aspects of liberalisation that leads to the displacement of inefficient producers in a given preferential trading area (a free trade area for instance). It is assumed that there is full transmission of price changes when tariff or non-tariff distortions (ad valorem equivalents) are reduced or eliminated. Laird and Yeats (1986) derive clearly the equation that can be used to estimate the trade creation effects. The derivation begins with the following basic trade model composed of simplified import demand and export supply functions and an equilibrating identity:

A simplified import demand function for country j from country k of commodity i:

$$M_{ijk} = f(Y_j, P_j, P_k) \quad (1)$$

The export supply function of commodity i of country k can be simplified as:

$$X_{ijk} = f(P_{ikj}) \quad (2)$$

The equilibrium in the trade between the two countries is the standard partial equilibrium equation:

$$M_{ijk} = X_{ikj} \quad (3)$$

In a free trade environment, the domestic price[6] of commodity i in country j from country k would change with the change in an ad valorem tariff as follows:

$$P_{ijk} = P_{ikj}(1 + t_{ijk}) \quad (4)$$

To derive the trade creation formula, following Laird and Yeats (1986), the price equation (4) is totally differentiated to get:

[6] The transport and insurance costs are not reflected in the equation explicitly.

$$\Delta P_{ijk} = P_{ikj}\Delta t_{ijk} + (1+t_{ijk})\Delta P_{ikj} \quad (5)$$

Equations (4) and (5) are then substituted into the elasticity of import demand equation[7] to get:

$$\frac{\Delta M_{ijk}}{M_{ijk}} = \eta_i^m \left(\frac{\Delta t_{ijk}}{(1+t_{ijk})} + \frac{\Delta P_{ijk}}{P_{ikj}} \right) \quad (6)$$

From the identity in equation (3), $\frac{\Delta M_{ijk}}{M_{ijk}} = \frac{\Delta X_{ikj}}{X_{ikj}}$ can be used to derive the following expression for elasticity of export supply:

$$\frac{\Delta P_{ikj}}{P_{ikj}} = \frac{1}{\gamma_i^e} \frac{\Delta M_{ijk}}{M_{ijk}}$$

which when used in equation 6, allows the computation of the trade creation effect. From equation (3) the trade creation effect is equivalent to exporting country k's growth of exports of commodity i to country j:

$$TC_{ijk} = M_{ijk}\eta_i^m \frac{\Delta t_{ijk}}{(1+t_{ijk})(1-\eta_i^m/\gamma_i^e)} \quad (7)$$

If $\gamma_i^e \to \infty$, then equation (7) can be simplified as follows:

$$TC_{ijk} = \eta_i^m M_{ijk} \frac{(1+t_{ijk}^1) - (1+t_{ijk}^0)}{(1+t_{ijk}^0)} \quad (8)$$

where TCijk is the sum of trade created in millions of dollars over i commodities affected by tariff change and η_i^m is the elasticity of import demand for commodity i in the importing country from the

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[7] The elasticity of import demand is $\frac{\Delta M_{ijk}}{M_{ijk}} = \eta_i^m \frac{\Delta P_{ijk}}{P_{ijk}}$

relevant trading partner. Mijk is the current level of import demand of the given commodity i. t^{0}_{ijk} and t^{1}_{ijk} represent tariff rates for commodity i at the initial and end periods respectively. Trade creation then depends on the current level of imports, the import demand elasticity and the relative tariff change.

Trade diversion

Trade diversion as opposed to trade creation can expand or contract trade globally. Trade diversion is the phenomenon that occurs in a free trade area for example whereby efficient producers from outside the free trade area are displaced by less efficient producers in the preferential area. Consider an EPA between ECOWAS and EU for instance. Trade diversion would result if as a result of the establishment of the EPA more efficient suppliers from the rest of the world (ROW) into ECOWAS are displaced by inefficient producers from the EU. Assuming that such an EPA is formed which leads to reduction of tariffs facing the EU without any changes in the tariffs facing the ROW exporters; the theory underlying the measurement of trade diversion in SMART is also explained in Laird and Yeats (1986). To see the derivation clearly, first the expression for elasticity of substitution is given. The elasticity of substitution can be expressed as the percentage change in relative shares of imports from two different sources due to a one per cent change in the relative prices of the same product from these two sources:

$$\sigma_M = \frac{\Delta\left(\sum_k M_{ijk} / \sum_K M_{ijK}\right) / \left(\sum_k M_{ijk} / \sum_K M_{ijK}\right)}{\Delta\left(P_{ijk} / P_{ijK}\right) / \left(P_{ijk} / P_{ijK}\right)} \qquad (9)$$

where k denotes imports from EU and K denotes imports from the rest of the World. Equation (9) can be expanded, and through substitutions and rearrangements be used to obtain the expression for trade diversion, which is expressed as:

$$D_{ijk} = \frac{M_{ijk}}{\sum_k M_{ijk}} \frac{\sum_k M_{ijk} \sum_K M_{ijK} \frac{\Delta(P_{ijk} / P_{ijK})}{P_{ijk} / P_{ijK}} \sigma_M}{\sum_k M_{ijk} + \sum_K M_{ijK} + \sum_k M_{ijk} \frac{\Delta(P_{ijk} / P_{ijK})}{P_{ijk} / P_{ijK}} \sigma_M} \qquad (10)$$

Equation (10) can be simplified to the case of an EPA. The relative price movement terms in the equation as noted in Laird and Yeats (1986) capture the movement due to changes in tariffs or the ad valorem incidence of non-tariff distortions for the EU and the ROW. Therefore, the trade diverted to the EU in the EPA, D^{EPA} can be captured by reducing equation (10) above as follows:

$$D^{EPA} = \frac{M^{EU}\ M^{ROW}\left(\frac{1+t^{1}_{EU}}{1+t^{0}_{EU}}-1\right)\sigma_{M}}{M^{EU}\ + M^{ROW} + M^{EU}\left(\frac{1+t^{1}_{EU}}{1+t^{0}_{EU}}-1\right)\sigma_{M}} \qquad (11)$$

Equation (11) shows the additional EU imports into the African EPA configured region such as ECOWAS over and above the increase in ECOWAS imports as a result of trade creation. There isn't necessarily a net increase in imports into ECOWAS as this involves the displacement of ROW imports into ECOWAS. M^{EU} and M^{ROW} are the current imports into the African REC configuration for EPA purposes from the EU and ROW respectively. t^{1}_{EU} and t^{0}_{EU} are respectively the end and initial periods import tariffs imposed on EU imports in the destination REC with $t^{1}_{EU} < t^{0}_{EU}$. σ_{M} is the elasticity of substitution between EU and ROW imports into the concerned country or REC. Trade diversion then depends on the current level of imports from the EU and ROW, the percentage change (reduction in this case) of tariffs facing EU imports with those for ROW remaining unchanged and the elasticity of substitution of the imports from the two sources. The higher the value of the elasticity of substitution, the greater will be the trade diversion effects.

Trade expansion

Adding the trade creation and diversion derives the total effect on trade. As indicated in Laird and Yeats (1986), the summation in equations (8) and (10) for an importing country can be done across products and/or across sources. It is also possible to sum the results across a group of importers for single or groups of products as well as for single sources of supply or groups of suppliers.

The revenue effect

The quantification of the revenue effect using WITS/SMART model is simple. In theory, the tariff revenue is given as the product of the tax rate (tariff rate in this case) and the tax base (the value of imports). Thus, before the change in the ad valorem incidence of the trade barriers, the revenue is given as:

$$R_0 = \sum_i \sum_k t^0_{ijk} P_{ijk} M_{ijk}$$

After the change in the tariff rate, the new revenue collection will be given by:

$$R_1 = \sum_i \sum_k t^1_{ijk} P_{ijk} M_{ijk}$$

The revenue loss as a result of the implementation of an EPA would then be the net effect between R1 and R0 which is the same as:

$$R = \sum_i \sum_k \Delta t_{ijk} P_{ijk} M_{ijk} \qquad (12)$$

The welfare effect

The WITS/SMART model estimation of welfare effects is quite simple. This is unlike the equivalent variations measurement in general equilibrium models. Essentially, the welfare effect is mainly ascribed to the consumer benefits in the importing country as a result of lower import prices[8]. This allows them to substitute more expensive domestic or imported products with the cheaper imports that are affected by the relevant tariff reduction. Increased imports leads to a net welfare gain that can be thought as the increase in consumer welfare and is measured as follows:

$$w_{ijk} = 0.5(\Delta t_{ijk} \Delta M_{ijk}) \qquad (13)$$

The coefficient of 0.5 captures the average between the ad valorem incidence of the trade barriers before and after their elimination/reduction. Equation (13) assumes that the elasticity of export supply is infinite. If this is not the case, the import prices in the importing countries fall by less than the full reduction in trade barriers. Therefore, while the equation can be used to measure welfare effect, it is no longer a representation of consumer surplus alone but has some element of producer surplus (see Laird and Yeats 1986).

[8] As emphasized in Laird and Yeats (1986), in the case of pre-existing level of imports, there is no net welfare gain in the country as the tariff reduction simply means a reallocation/transfer of revenue from the government to the consumers.

The WITS Database

WITS database comes from various sources. The external trade statistics comprise of UN COMTRADE, UNCTAD TRAINS and the WTO Integrated Data Base (IDB). The tariffs data is derived from UNCTAD TRAINS, WTO IDB and WTO Consolidated Tariff Schedule Data Base (CTS). The non-tariff measures are compiled from UNCTAD TRAINS database.

Annex 2: SADC countries profiles

Angola

Table 1 shows that the Angola's trade with the European Union has declined to 32 percent in 2002 from 47 percent in 1990. Especially Angola's import has sharply declined from 70 percent in 1990 to 39.2 in 2002. The major reason can be the increase of Angola's trade within its regional grouping SADC.

Table1. Angola's External Trade (Millions of USD)

		World	EU	Africa	% EU trade with Angola	Total trade		% EU Total trade
1990	Imports	1723	**1206**	40	70.0	5471	2570	47.0
	Exports	3748	**1364**	18	36.4			
1995	Imports	1891	**1146**	193	60.6	5303	1876	35.4
	Exports	3412	**730**	19	21.4			
2000	Imports	2182	**1017**	427	46.6	9546	2293	24.0
	Exports	7364	**1276**	17	17.3			
2001	Imports	3366	**1342**	395	39.9	9586	2983	31.1
	Exports	6220	**1641**	11	26.4			
2002	Imports	3739	**1464**	429	39.2	10739	3404	32
	Exports	7000	**1940**	11	27.7			

Source: UNCTAD 2003 CD ROM and Author's Computation

Mozambique

Mozambique's trade with European Union has fallen slightly to 31.5 percent in 2002 from 36.4 percent in 1990. The significant decline comes from Mozambique's import, which has sharply declined from 42.5 percent in 1990 to 21.5 in 2002. The possible reason can be the increase of Mozambique's trade within its regional grouping SADC. (See table 2)

Table2. Mozambique's External Trade (Millions of USD)

		Word	EU	Africa	% EU trade with Mozambique	Total trade		% EU Total trade
1990	Imports	913	388	102	42.5	1294	471	36.4
	Exports	381	83	12	21.8			
1995	Imports	747	234	266	31.3	921	305	33.1
	Exports	174	71	53	40.8			
2000	Imports	1046	175	542	16.7	1410	268	19.0
	Exports	364	93	131	25.5			
2001	Imports	958	138	411	14.4	1661	204	12.3
	Exports	703	66	159	9.4			
2002	Imports	1523	327	446	21.5	2766	872	31.5
	Exports	1243	545	172	43.8			

Source: UNCTAD 2003 CD ROM and Author's Computation

Tanzania

Tanzania's trade with the European Union has fallen slightly to 28.1 percent in 2002 from 53.0 percent in 1990. The significant decline comes from Tanzania's imports, which have sharply declined from 58.1 percent in 1990 to 24.1 in 2002. The possible reason can be the increase of Tanzania's trade within its regional grouping SADC. (See table 3)

Table3. Tanzania's External Trade (Millions of USD)

		World	EU	Africa	% EU trade with Tanzania	Total trade		% EU Total trade
1990	Imports	1022	594	44	58.1	1438	762	53.0
	Exports	416	168	35	40.4			
1995	Imports	1879	455	498	24.2	2576	683	26.5
	Exports	697	228	108	32.7			
2000	Imports	1520	337	308	22.2	2255	704	31.2
	Exports	735	367	139	49.9			
2001	Imports	1593	404	341	25.4	2317	678	29.3
	Exports	724	274	135	37.8			
2002	Imports	1636	395	370	24.1	2401	674	28.1
	Exports	765	279	147	36.5			

Source: UNCTAD 2003 CD ROM and Author's Computation

Botswana

The visible trade balance exhibited sizeable fluctuations over the period 1991-99, Diamonds, copper-nickel and beef accounted for 88.5% of Botswana's exports on average between 1985 and 1999; however, from 1995, motor vehicles were the second largest item. As a result, although the value of exports of meat and copper-nickel has been maintained, their shares have declined dramatically. The export sector continued to perform well in 2000, with exports' share of GDP 36% higher than in 1995. Contributing to the remarkable export performance was the continued strong growth in exports of vehicles, which grew by 62% during the first half of 1996 compared to the first half of 1995, increasing their share in total exports from 13.4% to 17%. Diamonds remained the leading export commodity, at 69% of total exports during the first half of 1996 compared to 71% during the same period in 1995.

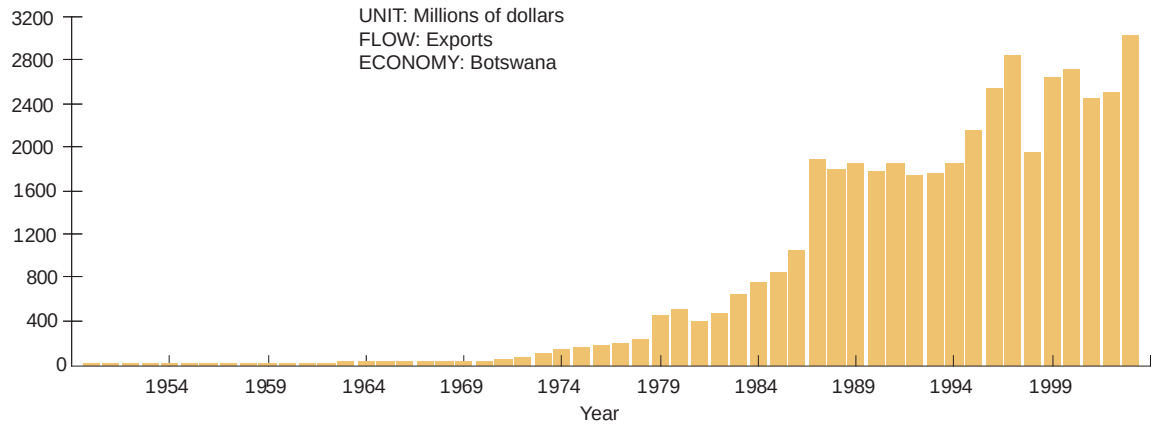
Imports grew at an annual rate of 16.5% between 1980 and 2000, but by only 2.4% from 2,478 million pula during the first half of 1995 to 2,537 million pula in the first half of 1996. Imports of food, beverages and tobacco, and machinery and electrical equipment retained their relative positions in total imports, with 17.3% and 15.8% respectively, while vehicle imports were 12.6% during the same period. Import values in these categories recorded some decline compared to the same period in 1995 probably due to factors such as the depreciation of the pula, good rain during the year raising domestic production of food, and developments in the motor vehicle industry. All other imports, except for metals and metal products, increased in 1996 compared to the corresponding period in 1995.

The direction of Botswana's exports is currently dominated by the United Kingdom, followed by the rest of Europe including Switzerland.[9] The SACU accounted for 21.7% of total exports in 1999, largely because of the increase in Botswana's exports of vehicles. The remaining exports were destined to Zimbabwe (2.8%) and the rest of the world (1.9%). All of Botswana's diamonds exports have in the past gone to Switzerland in the first instance, but ultimately most were sold to the Central Selling Organization (CSO) in London.

[9] Botswana has preferential access to the European Union (EU) under the Lomé Convention. Two additional major export markets are non-EU countries, Switzerland (diamonds) and Norway (copper-nickel matte).

The SACU accounted for 78.2% of total imports and remained the leading source of Botswana's imports during the first half of 2000, followed by Zimbabwe (6.4%). Imports are overwhelmingly purchased or sourced via Southern Africa. Not all goods imported from South Africa are of South African origin; some goods are re-exports of goods imported through South Africa, while others have undergone final processing within the country. Under the present SACU procedures, details on the actual country of origin on commodities imported from member countries are not available. Since the establishment of the Hyundai vehicle assembly plant in Botswana, the Republic of Korea has become an important trading partner as a source of imports of vehicle parts.

Value and shares of merchandise exports and imports



Lesotho

Since independence in October 1966, the economic performance of Lesotho has been severely hampered by three factors: (i) domestic and regional political instability (the latter associated with South Africa's apartheid destabilization), (ii) structural constraints such as poor agricultural performance compounded by soil erosion, poor farming systems and low productivity, and (iii) poor economic and financial management. Policy reforms initiated in the late 1980s under a structural adjustment programme (SAP) and the implementation of the multifaceted Lesotho Highlands Water Project (LHWP) have injected new and positive stimuli into the country's development endeavours.[10]

The industrial sector of Lesotho is dominated by manufacturing and construction activities. The industrial sector's value added has been impressive since independence, at which time Lesotho had virtually no industrial base. However, while growth in the medium- and large-scale foreign-owned manufacturing

[10] LHDA, (1996).

sector has been rapid, there has been no commensurate growth in the small-scale sector. Potential backward or forward linkages between the foreign and local sectors (e.g. manufacture of packing materials, labels, zippers for the clothing industry; and subcontracting of certain activities) have not materialized.[11]

Imports from South Africa make up more than 70% of the basket of goods and services from which Lesotho's CPI is compiled. Hence price developments in Lesotho follow more or less the trend in South Africa.[12] Nevertheless, divergence may occur because of differences in the weighting of goods: Lesotho's CPI is biased towards basic commodities, such as food, while that of South Africa is weighted in favour of manufactures. Therefore, during periods of drought, food prices escalate and Lesotho's CPI rises above that of South Africa; the opposite occurs when good rains allow for good agricultural harvest.

Since the 1960s, the pattern of Lesotho's merchandise trade has been stable, with imports (c.i.f.) considerably outweighing exports. The economy is highly import-dependent, with respect to both consumer goods and production inputs. Total imports were 120% of GDP in 1995. (WTO, 1998)

Historically, food and live animals, crude materials (inedible) and manufactured goods have dominated Lesotho's merchandise exports. Diamond exports were relatively significant until the closure of the Letseng-la-Terai mine in 1982. Exports of miscellaneous manufactured products, especially textiles, clothing and footwear, steadily expanded from M 129.3 million in 1991 to M 583 million in 1996, to dominate Lesotho's merchandise exports.

Detailed and disaggregated data for merchandise imports are not available for Lesotho. The free flow of goods and services from South Africa into Lesotho and the lack of an effective mechanism for data generation, processing and storage imply that highly aggregated import figures must be utilized as trend indicators. The steady surge in merchandise imports since the early 1990s is partly due to the construction activities associated with the Lesotho Highlands Water Project. Lesotho is heavily dependent on importation of grains and other staple foodstuffs, mainly maize. Almost all its requirements for manufactured goods are imported from South Africa. The direction of Lesotho's merchandise trade has remained much unchanged over the past five years. In exports, the largest share goes to Africa, especially to the SACU market. (WTO, 1998)

In 1999, exports to Africa constituted 53% of total exports, with most going to SACU. Over the period 1991-95 exports to Europe peaked in 1993 at M 82.6 million but fell to M 53.2 million in 1994. The increase in 1995 was just M 1.1 million.

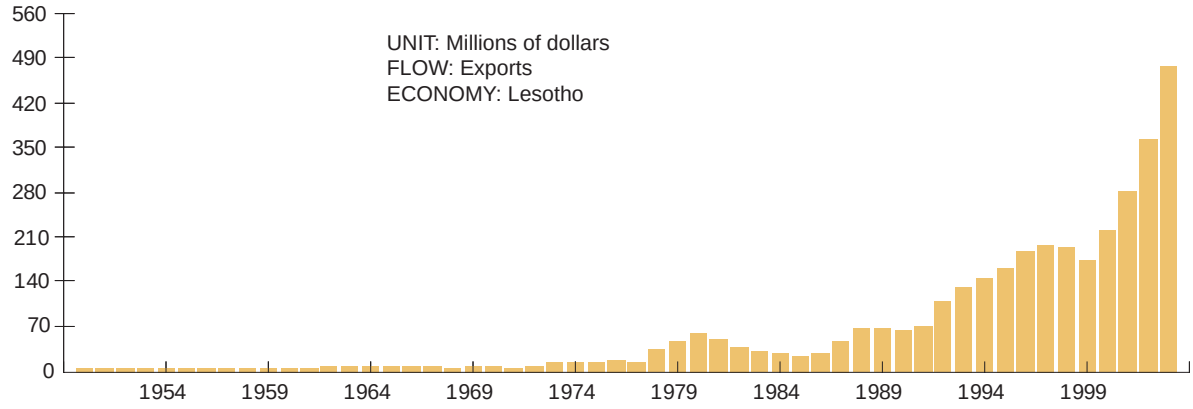
It should be noted that Lesotho's exports to the United States have grown rapidly, from M 28.5 million in 1991 to M 218.3 million in 1995, making up more than one third of total exports in that year. Lesotho's

[11] Ministry of Planning, Economic and Manpower Development (1996a).
[12] Central Bank of Lesotho, (1996a).

exports to the United States mainly consist in clothing, leather and footwear, which are produced in firms set up by Asian investors, principally from Chinese Taipei.

Lesotho's imports also originate predominantly from Africa with almost all coming from SACU, i.e. principally South Africa. Imports from Europe and Asia, though significant, have been erratic. Problems of definitions of origin obviously arise when all goods are channeled through South Africa and often cleared at its border or broken-bulk and shipped onward to Lesotho.

Value and shares of merchandise exports and import



Namibia

The Namibian economy is characterized by erratic up- and down-swings, which result primarily from Namibia's vulnerability to external shocks and adverse climatic conditions. Factors such as the severe drought Namibia experienced over the last few years; the world market recession for mineral products, including the quota for diamonds imposed by the Central Selling Organisation (CSO); adverse climatic conditions affecting fishing in the Namibian Exclusive Economic Zone (EEZ); and the general recession in the world economy of the early 1990s have been serious impediments to economic growth.

Detailed statistics on Namibia's exports are not readily available. Namibia's imports are reasonably well documented for the years 1993 to 1995. Capturing of 1996 imports had only been partially completed by end-June 1997. Trade statistics show that the value of exports no longer exceeded that of imports. The deficit is small, however, and the external current account has been reasonably in balance over the past five years. The higher value of imports has been mainly due to the depreciation of the rand, resulting in a higher N$ recorded value.

More than 85% of all Namibia's imports are sourced from South Africa, while only about one third of Namibia's exports go to South Africa. Imports are mainly in the form of consumer and intermediate goods, food products and inputs required for local production purposes. The main export earners for Namibia are: diamonds, other mining products, and food and live animals (including fish and fish products).

Namibia still relies heavily on exports of ores and minerals. For instance, in 1996, the export of diamonds alone contributed 39.4% to total export earnings, with a further 18.5% from the export of other mining products. Thus far, prospects look positive for the expansion of exports in other sectors, particularly if the EPZ initiative develops as intended. Other growth sectors for exports are the fish industry and the tourism sector. The positive trend in these sectors since independence is expected to continue. There has also been some expansion since independence, in exports of non-traditional agricultural exports, including ostrich products (skins, meat, eggs, feathers, etc.), melons, grapes, and various medicinal plants (e.g. devils claw). In particular, the ostrich industry is expected to become an important generator of foreign currency.

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