

6. The potential for trade cooperation between the European Union and selected countries of the Southern African Development Community in light of the provisions of the Economic Partnership Agreement

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Abstract: Trade cooperation between the EU and selected Southern African Development Community economies is explored through the Economic Partnership Agreement. The chapter studies Angola, Botswana, Eswatini, Lesotho, Mozambique, Namibia and South Africa by reviewing source documents and examining trade statistics, especially for 2016–2022. Liberalisation under the EPA is shown to have generated trade creation, though the gains differ markedly across countries. South Africa dominates the relationship, Angola remains significant, yet the region's overall share in EU external trade is still modest. The commodity pattern is asymmetrical: EU imports are led by raw materials, fuels and other resource-based goods, whereas EU exports mainly consist of machinery, equipment and transport goods. The chapter indicates that preferential access can stimulate exchange, but developmental value depends on each economy's structure and capacity to use the agreement.

Keywords: trade cooperation, Economic Partnership Agreement, Southern African Development Community.

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Introduction

The Economic Partnership Agreement (EPA) between the European Union (EU) and the member states of the Southern African Development Community (SADC) is the key element of their trade co-operation, whose aim is to strengthen economic relations and support regional integration among the countries of the African, Caribbean and Pacific states (ACP). The Agreement, which originally comprised Botswana, Lesotho, Mozambique, Namibia, the Republic of South Africa and Eswatini (former Swaziland), guarantees an asymmetrical access to the market for the partners within the SADC EPA group. The agreement, which was temporarily introduced on 10 October 2016, opened new possibilities of trade exchange, whilst the Angola's access to the negotiations in 2022 bolstered the significance of the partnership.

The aim of the chapter is to present the results of an analysis of the EPA's significance for EU trade relations with selected SADC member states (Angola, Botswana, Eswatini, Lesotho, Mozambique, Namibia, the Republic of South Africa).¹ This study posits that the trade liberalisation provided for in the EPA has influenced the mutual trading products flow between the EU and selected SADC economies. The research methods used here include a review of source documents and statistical reports, in addition to a statistical analysis of trade data. Ultimately, the research results enabled an evaluation of the significance of the EPAS for the mutual trade flows in 2016–2022.

6.1. The main provisions of the SADC EPAs

The SADC countries, as the member states of the ACP, use the preferential trading conditions established as early as in 1975. The Cotonou Agreement, signed in 2000, forms the foundation for this relationship, specifying the collaboration in three areas: development, economy and politics. According to this agreement, negotiations on some regional EPA agreements commenced in 2002–2007, with the objective being to introduce mutual trade preferences in compliance with WTO principles. Eventually, the negotiations for Economic Partnership Agreement (EPA) between the EU and SADC EPA group were completed on 15 July 2014, after more than a decade of negotiations. The Economic Partnership Agreement between the EU and SADC comprising Botswana, Lesotho, Mozambique, Namibia, the Republic of South Africa (RSA) and Swaziland (today Eswatini)

¹ The group comprises 16 states, yet only seven of them are bound with the EPA agreement within this regional group, this these countries were selected for the study.

was signed on 10 June 2016 (Economic Partnership Agreement between the European Union and its Member States, of the one part, and the SADC EPA States, of the other part, OJ L 250, 16.9.2016). It entered into force from 10 October 2016, (in Mozambique on 4 February 2018). On 26 July 2022, the Joint Council of the EU and SADC EPA countries adopted a decision enabling Angola to commence negotiations for admission to UE–SADC EPA (European Commission 2018). Moreover, the European Union finalised the negotiations with Angola for the Sustainable Investment Facilitation Agreement on 18 November 2022 and formally signed it on 17 November 2023.

Table 6.1. The scope of tariff elimination and reductions provided for in SADC EPA

EU offer to BLMNS	
Full liberalisation	100% (except arms and ammunition, 93 HS section)
EU offer to South Africa (RSA)	
Full liberalisation	94.9%
Partial liberalisation	3.2%
Excluded	1.9%
SACU offer to EU	
Full liberalisation	84.9%
Partial liberalisation	12.9%
Excluded	2.2%
Mozambique offer to EU	
Full liberalisation	81%
Excluded	19%

Source: Source: (European Commission, 2016, pp. 15–16; Fact sheet, 2011).

The EU-SADC Economic Partnership Agreement provides for reciprocal but asymmetrical tariff preferences. Under the agreement, the EU grants duty-free and quota-free access to goods originating in Botswana, Eswatini, Lesotho, Mozambique and Namibia. This means that products from these countries (with the exception for arms and ammunition) will enter the EU market duty-free. In South Africa, the preferences are less generous. Zero tariffs cover 95% of all tariff lines, with approximately 2% of them excluded from liberalisation (Table 6.1). On the other hand, Botswana, Eswatini, Lesotho, Namibia and South Africa have liberalised approximately 85% of all tariff lines and partially liberalised 13% of them, whilst 2% of tariffs are excluded from liberalisation. Mozambique has ensured the elimination of tariffs on 81% of its tariff lines for imports from the EU.

While the EPA aims to continue and secure duty-free access to the EU market enjoyed for several decades by Botswana, Lesotho, Mozambique, Namibia and today's Eswatini (BLMNS), in the case of South Africa (RSA), the objective of the agreement is to improve the market access conditions, as set out in the 2018 Trade Development and Cooperation Agreement (TDCA) with the EU. This agreement provided South Africa with significantly liberalised access to the EU market, whilst the EPA introduced additional selective and partial liberalisation in this respect. It is selective because it concerns only selected agricultural goods, and partial because it means the establishment of tariff rate quotas (TRQ).² These apply to key South African exports, including sugar, wine, fruit and fruit juices (European Commission 2016, p. 16) (Table 6.1).

In addition to its trade liberalisation aspects and the consequent increase in mutual trade, the SADC EPAs are of particular importance for regional supply chains due to the rules of origin. Whether a product qualifies for export to the EU at a reduced or zero tariff rate always depends on its origin. In order to benefit from the preferences of the EPA agreement, economic operators must comply with specific rules of origin.

The SADC EPA specifies the rules of origin designed to support the development of the new value chains within the region. This includes 'the cumulation of origin', thanks to which the countries that apply the same rules of origin to jointly account for the production of goods that qualify for preferential treatment.³ This mechanism exempts materials originating from countries in the cumulation zone from the obligation to meet the criterion of sufficient processing to confer origin; this involves treating them as if they were materials originating from the country of processing. Therefore, cumulation of origin constitutes an exception to the rule that preferential rules of origin apply to products from only one country benefiting from preferences in the recipient country.

The EPA rules of origin enable an extended cumulation which may facilitate the intraregional trade. The agreement provides for three types of cumulation:

- bilateral, between SADC EPA and EU Member States (Title II, article 3 of the EPA agreement);
- diagonal, comprising the SADC EPA states, the remaining ACP EPA states, overseas countries and territories of the EU (OCTs) and the EU (Title II, article 4 of the EPA agreement);

² A tariff rate quota is a specific quantity of goods for which lower duties are set during the quota period.

³ More about the rules of origin can be found in (Czermińska, 2023; Gwardzińska & Chowaniec, 2021).

- extended cumulation in reference to the materials subject to zero-tariff treatment in the EU, pursuant to the MFN treatment in the EU and in reference to the materials originating from the remaining countries to which preferential quota-free access to the EU applies (LDC countries) (Title II, articles 5 and 6 of the EPA agreement).

Within the bilateral cumulation, the materials originating from the EU and undergoing further processing or treatment in a country benefiting from the SADC EPA preferential conditions are regarded as originating from the beneficiary country, whereby the processing or treatment there must be sufficient to confer origin. Bilateral cumulation is mutual, and thus applies to the materials originating from the EU that undergo treatment or processing beyond the minimum operations in the SADC EPA country and then exported to the EU.

A diagonal cumulation takes place between the SADC EPA countries, the EU and the ACP EPA states, as well as the twenty-five overseas countries territories. As opposed to the TDCA, this cumulation applies solely to the ACP countries which entered into an economic partnership agreement with the EU. Consequently, materials originating from the EU, a SADC EPA country, or other ACP EPA or OCT states may be used for a product created in another SADC EPA country, provided that the processing or treatment there exceeds the minimum operations which are insufficient for conferring origin; if this condition is met, the final product will be regarded as originating from SADC EPA. Conversely, the materials originating from the SADC EPA country, other ACP EPA or OCT states may be used in a product created in the EU. Under the same condition (the processing or treatment there exceeds the minimum non-origin-conferring operations) – the final product will be regarded as originating from the EU.

This cumulation is not applicable to: (1) materials numbered HS 1604–1605 originating from the Pacific (processed or preserved fish; caviar, crustaceans, molluscs and other aquatic invertebrates, processed or preserved); (2) materials originating from the Republic of South Africa, which cannot be brought to the tariff-free and quota-free. From 1 October 2018, the exporters from the EU may apply this diagonal cumulation with ACP EPA states and with the OCTs (Journal of Laws No.: C 407 of 12.11.2018, p. 8).⁴

Whilst diagonal cumulation applies only to the materials originating from the ACT countries covered by the Economic Partnership Agreement, an extended cumulation with the GSP beneficiaries basically refers to the majority of ACP countries, which did not enter into the Economic Partnership Agreement. Therefore, SADC EPA states may obtain such materials from the GSP EBA beneficiaries (who otherwise would use the tariff-free and quota-free access in

⁴ Guide to the Protocol (2022).

the case of direct export to the EU) and treat them as their own materials to be used in their final products. Such materials must be sufficiently processed or treated to confer origin.

Similarly, materials sourced anywhere in the world can be integrated into local production, provided that such goods or materials are subject to MFN zero-tariff access to the EU (extended cumulation). Thus, the final product (resulting from processing sufficient to confer origin) will retain preferential status under the SADC EPA.

A new partnership agreement, known as the “Samoa Agreement” and in force since January 2024, was concluded on 15 November 2023 by the EU and its Member States with the member states of the Organisation of African, Caribbean and Pacific States (OACPS). This agreement is provisional in character, as before it can come into full effect, further legal procedures must be implemented, in particular, ratification by at least two thirds (53) of the OACPS members. The Samoa Agreement contains mutual principles and is based on six key priorities: human rights, democracy and governance; peace and security; human and social development; sustainable economic growth and development; environmental sustainability and climate change; and migration and mobility (Partnership Agreement, 2023).

6.2. Economic significance of selected SADC countries

This section will focus on identifying the potential of the economies studied in the region. The significance of the SADC countries is analysed by the share in the Gross Domestic Product (GDP) and the population (Table 6.2). The studied economies make up 46% of the region's population and generate over 72% of the GDP of SADC. The total share of the selected countries in the SADC GDP decreased by 10 percentage points over the period 2012–2022, primarily as a result of the decline in Angola's share in the SADC GDP from 16.9% in 2012 to 9.1% in 2022. Nevertheless, most of the countries have noted an increase share of SADC GDP, with the largest proportion being that of the RSA which, in 2012 accounted for 57.2% of the total SADC GDP, dropping to 53.6% in 2022. RSA has also the largest population, making up 20.2% of the SADC total population. The data illustrates the stark diversity in the SADC region, which can additionally be analysed using the GDP per capita. The disparity between the highest level (8,304 USD for Botswana) and the lowest (582 USD for Mozambique) is 14-fold (Table 6.3). The GDP per capita in Botswana is one of the region's highest, indicating a relatively efficient economy paired with a small population. It is worth emphasising, however, that in the study period, both economies could be characterised by the highest rates of GDP per capita growth.

Table 6.2. The share in GDP and the population rate in selected SADC countries (%)

SADC	GDP	2012	16.9	1.8	0.1	4.0	0.6	0.3	1.5	1.1	1.5	2.2	1.7	0.1	57.2	5.2	3.4	2.3	82.4
		2016	16.0	2.4	0.2	6.1	0.6	0.3	1.9	1.2	2.0	1.9	1.7	0.2	51.1	7.9	3.3	3.2	77.3
		2022	9.1	2.3	0.2	8.8	0.6	0.3	1.9	1.6	1.5	2.0	1.6	0.2	53.6	9.0	2.9	4.6	72.6
		2022	12.0	0.9	0.3	2.0	0.4	0.8	10.0	6.9	0.4	11.1	0.9	0.04	20.2	22.0	6.7	5.5	46.1
Population																			

Source: based on (SADC Statistics, 2022; World Bank, n.d.).

Table 6.3. GDP per capita (USD, PPS)

Countries	2012	2016	2017	2018	2019	2020	2021	2022	2016/2012 (%)	2022/2016 (%)
Angola	5 275	3 677	4 306	3 466	2 757	1 761	2 203	3 478	69,7	94,6
Botswana	6 742	6 795	7 145	7 441	7 195	6 298	7 730	8 304	100,8	122,2
Eswatini	4 530	3 369	4 032	3 882	3 965	3 470	4 180	4 076	74,4	121,0
Lesotho	1 327	1 089	1 182	1 120	1 129	999	1 079	1 063	82,1	97,6
Mozambique	711	460	476	526	529	473	524	582	64,7	126,5
Namibia	6 040	4 360	5 443	5 668	5 100	4 227	4 881	4 856	72,2	111,4
South Africa	8 212	5 762	6 689	6 997	6 626	5 680	6 977	6 680	70,2	115,9
SADC	2 563	1 920	2 152	2 154	2 003	1 726	2 062	2 160	74,9	112,5

Source: based on (SADC Statistics, 2022).

6.3. Trade patterns between the EU and selected SADC economies

From 2012 to 2022, the value of the trade exchange between the EU and the SADC countries fluctuated, both with respect to the export and import (Figure 6.1). However, when focusing on the period after 2016, it is worth paying attention to a substantial trade creation effect, where the turnover increased by 170.7% in 2022 in comparison to 2016 (exports by 131%, and imports by 214.2%). At that time, the majority of SADC states recorded accelerated trade dynamics with the EU, with the largest growth reported in Angola (352.4%), and the largest import increase in Mozambique (193.7%). An analysis of the trade balance of selected SADC countries in relation to the EU reveals that the EU maintains a deficit with these countries, meaning that the value of imports exceeds that exports from the EU to the selected SADC countries.

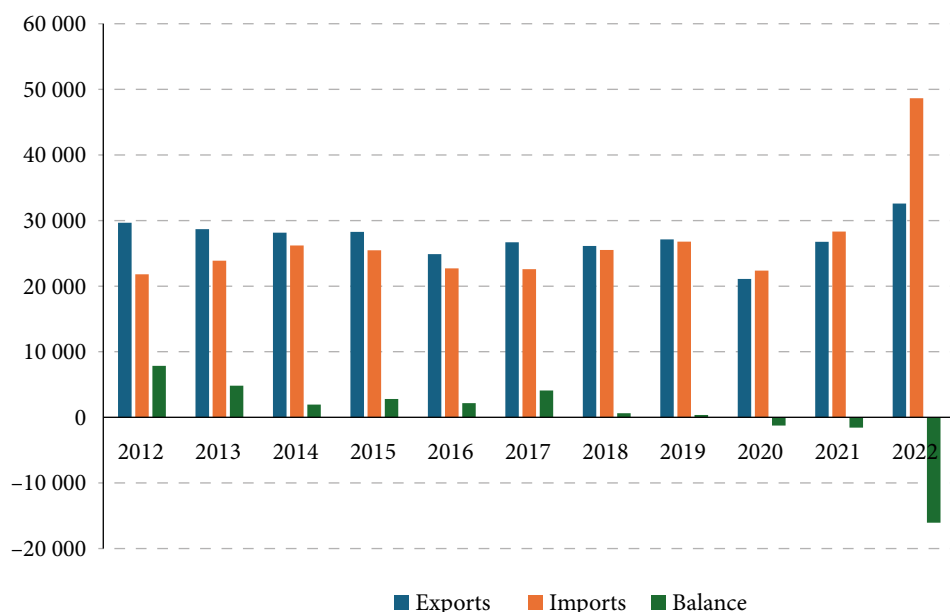


Figure 6.1. EU's commodity trade with the selected SADC countries, 2012–2022 (million EUR)

Source: based on (European Commission, n.d.).

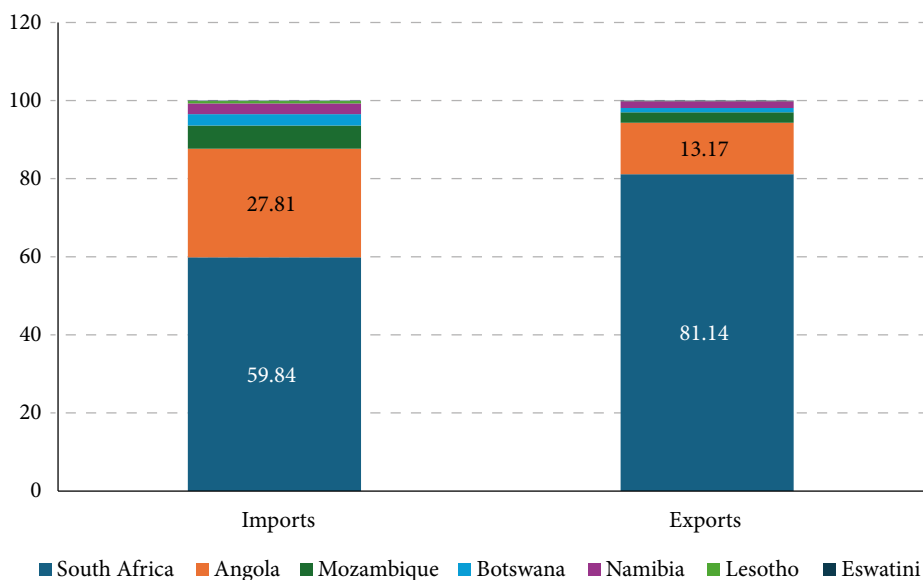
When analysing the share of selected SADC economies in EU trade, their low share of its external turnover must be emphasised i.e. 1.27% in exports and 1.62% in imports in 2022 (Table 6.4).

Table 6.4. The share of the selected SADC in the EU trade exchange (%)

Years	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Exports	1.68	1.61	1.57	1.51	1.33	1.34	1.27	1.27	1.09	1.23	1.27
Imports	1.28	1.46	1.61	1.55	1.42	1.28	1.33	1.38	1.30	1.33	1.62

Source: based on (European Commission, n.d.).

South Africa and Angola clearly dominate EU trade with the SADC economies under review (accounting for 59.8% and 27.8% of EU imports from the region and 81.1% and 13.2% of EU exports, respectively), whilst the share of Botswana, Eswatini, Lesotho, Mozambique and Namibia is substantially smaller (Figure 6.2). However, for most SADC countries, the EU remains an important trading partner, which is evidenced by the EU's high share in these countries' trade.⁵

**Figure 6.2. The share of the economies under review in the mutual trade with EU in 2022 (%)**

Source: based on (European Commission, n.d.).

⁵ In 2022, South Africa's share in the EU trade was 1% for both exports (22nd place) and imports (20th place). The EU's share in South African trade, on the other hand, was 21.9% for exports and 22.1% for imports, making the EU South Africa's number one trading partner. Angola's share in the EU's trade is 0.2% for exports (54th place) and 0.5% for imports (37th place). Conversely, the EU's share in Angola's trade is 24.2% for exports (2nd place) and 31.3% for imports (1st place). Botswana's share in the EU trade is negligible, both for exports (128th) and imports (76th), whereas the EU share in Botswana's trade in 2022 is 7.2% for exports (2nd) and 7.5% for imports (2nd). Similarly, the share of the other

Figure 6.3 illustrates the trade between EU with selected SADC economies in 2022, according to the Standard International Trade Classification (SITC). The most important item in EU imports from the SADC region is mineral fuels, lubricants and related materials (35%). On the other hand, the dominant item in EU exports to SADC is machinery, equipment and transport equipment (41.5%).

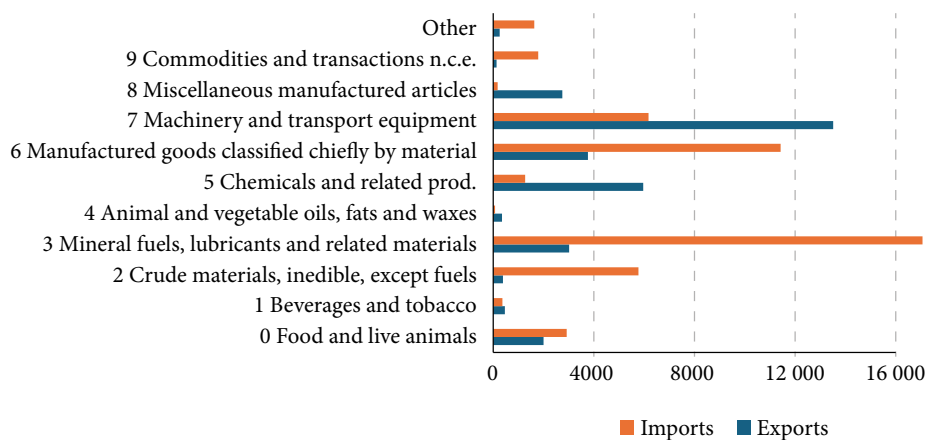


Figure 6.3. The structure of EU trade with the SADC economies under review in 2022 (million EUR)

Source: based on (European Commission, n.d.).

However, the differences in the structure of trade with individual countries, reflecting their economic specificities and natural resources, are obvious. For example, mineral fuels dominate in imports from Angola to the EU (94.1%), whilst industrial goods dominate in imports from Lesotho to the EU (96.6%).

Conclusions

Trade liberalisation under the EPA contributed to an increase in bilateral trade between the EU and selected SADC countries between 2016 and 2022. The average trade creation balance in goods between the EU and the economies under review was positive within this period, confirming the research hypothesis.

economies under review in EU trade is very low, while the EU's share in trade is as follows: Eswatini 3.7% for exports (3rd position) and 4.1% for imports (4th position); Lesotho 33.3% for exports (1st position) and 0.9% for imports (8th position); Mozambique in 2022: 26.2% for exports (1st place) and 8.4% for imports (3rd place); Namibia in 2022: 19.2% for exports (2nd place) and 9.6% for imports (3rd place).

However, the extent of change varies from one country to another. While the share of selected SADC countries in the EU external trade remains small (approx. 1%), the share of EU imports increased from 1.4% to 1.6%, along with a slight decrease in the share of EU exports from 1.33% (2016) to 1.27% (2022). Due to its significant share in EU-South African trade, South Africa has consistently had the greatest impact on the trade balance in the SADC region.

The surveyed SADC countries are oriented towards trade with the EU to varying degrees, which is also directly related to the commodity structure of their trade. South Africa has the highest share of trade with the EU, accounting for 60% of imports and just over 80% of exports (2022). Angola ranks second with a share of 28% of imports and 13% of exports. Mozambique is in third place with a share of 6% of imports and just under 3% of exports. Eswatini has the smallest share in trade with the EU (less than 1%). In the structure of EU imports from the studied economies, mineral fuels, lubricants and related materials continued to dominate, accounting for 35% of the value of imports in 2022. By contrast, EU exports were dominated by machinery, equipment and transport equipment, with a share of 41.5%.

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