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What is really in the economic partnership agreements for the Southern African region? A perspective from Botswana's beef export markets

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Abstract

The signing of the Economic Partnership Agreements (EPAs) between the European Union (EU) and the African Caribbean Pacific (ACP) nations dominated the multilateral trade agenda in late 2007 and early 2008. While the Caribbean nations signed the full EPAs, some of the African countries only signed interim agreements with the EU and a number of West African countries chose not to sign any EPA. Using the case of Botswana's export markets, especially in agriculture, it is argued that the interim Southern African Development Community (SADC) EPA, which was signed by Botswana and her neighbours, with the exception of South Africa, may have been economically sensible in protecting Botswana's rural poor, at least in the short run. By tracing trade flows from the border to specifically poor sectors of the country, the importance of the beef exports sector to the poor and rural communities was found. The potential effects on the most significant exports of tariff bands associated with preferential agreements with the EU were found to be most beneficial in comparison to the Most Favoured Nation (MFN) and the South Africa-EU Trade Development and Cooperation Agreement (TDCA) tariff bands. But it is also argued that the EPA will most likely have far reaching long run costs on regional economic development and institutional integration, within the SADC and Southern African Customs Union (SACU).

Keywords: Botswana; economic partnership agreements; European Union; exports; beef

1. Introduction

In the months leading to the end of 2007, the Economic Partnership Agreements (EPAs) between the African, Caribbean and Pacific (ACP) countries and the European Union (EU) caused numerous debates globally with respect to the agreements' actual and perceived short and long term economic effects in Developing and Least Developed Countries (LDCs) (e.g.

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Makhan, 2007; ODI, 2007; Rampa, 2007). At the start of 2008, eighteen developing and LDC countries in Africa signed the EPAs within their Regional Trade Areas (RTA), for example the East Africa Community (EAC) and ODI, 2008). However, in the last days leading to the deadlines for the signing, many of these countries were still unclear about their own bargaining positions with the EU and the associated costs and benefits of the EPAs to their economic and political agendas (Makhan, 2007:5). Even after the signing of what became the interim EPAs, it was still unclear whether some of the signatory countries would still sign the next phase of the EPAs, for instance on issues pertaining to trade agreements in services, investments, telecommunications, finance, etc. (Weidlich, 2008). Much of the uncertainty came specifically from a lack of clarity regarding the economic effects of the EPAs on: a) the countries' local industrial development objectives, b) regional integration processes, for example on the Southern African Development Community (SADC), c) local and vulnerable economic sectors, and ultimately, d) on poverty alleviation in efforts in Developing and LDC countries.

The paper argues that the interim EPAs may be good for protecting poor populations if they could provide the required levels of protection of identified vulnerable sectors, which directly affect these populations in slowly liberalising economies. But the agreements would only be effective as measures of protection and against absolute poverty in the short run. In terms of industrial development objectives, the agreements would have huge and hard to quantify cost implications. The EPAs would unfortunately also render regional trade areas and agreements difficult to sustain in the developing world.

The case of Botswana, a member country of the Southern African Customs Union (SACU), is used to illustrate these assertions. The paper explores the potential effects of EPAs on the country's agricultural sector, with specific focus on beef export markets. This is because these markets have always been important for the rural and poor communities' livelihoods and have created the most significant links between open trade policies and poverty reduction efforts in this country.

In Section 2, the methods used in collecting and analysing data are presented. Background information on seemingly uncoordinated and desperate events leading to the signing of the EPAs is provided in Section 3. A review of some relevant trade theory is presented in Section 4. Botswana's economy, trade policies and agreements are discussed in Section 5. A discussion of the EPA's potential effects on Botswana's rural poor is presented in Section 6. The final

section concludes with some policy recommendations for Botswana and for some of its neighbours in southern Africa.

2. Research methods

The Most Favoured Nation (MFN), ACP and Trade Development and Cooperation (TDCA) export tariff schedule data for specified sectors were sourced from the Market Access Map (MacMap, 2008) database. These were used to compare the potential economic effects of an EPA between Botswana and the EU against the likely effects of the TDCA and MFN tariff schedules on the country's economy, respectively. The comparative effects were computed and analysed for Botswana's top eight³ export products (in monetary value terms). Data on trade flows of these export products was sourced, at the HS6 level⁴, from the TIPS (2008) database. Other secondary trade and policy data were collected from sources including the Overseas Development Institute (ODI, 2007) and the UNDP (2008) reports. The data were used to describe Botswana's macroeconomy and her trade liberalisation policies. Simple *Microsoft excel pivot tables* were used to analyse Botswana's trade flows and to compare the likely economic effects of the three export tariff schedules on such flows and the wider economy.

3. Background: the rush towards EPAs

The EPAs between the EU and ACP countries came into force in September 2002 following the signing of the Cotonou Agreement in 2000 between 79 ACP countries and the then 15 members of the EU. The objectives of the EPAs were to introduce open trade in line with the WTO GAT Article XXIV requirements between the two trading blocks and to gradually promote economic development with competitive markets in ACP countries (Makhan, 2007; Rampa, 2007). The Cotonou Agreement allowed the signatories a maximum window period of five years, beginning in 2002, to negotiate more WTO compatible agreements in areas like market access, trade in services, rules of origin, etc. During the five year period, the ACP countries would be allowed non-reciprocal preferential access in agricultural exports, with duty free custom and quota rates into EU markets. However, the EPA's implementation would over time erode such preferences, encouraging more open trade between partners. Hence, because such an erosion (if not accompanied by proportional sectoral development) would leave many economic sectors in ACP countries vulnerable in multilateral trade negotiations, the controversies

³ Excluding raw diamonds and products.

⁴ The 6th level of the Harmonised System (HS) uniformly describes products which are being traded at a relatively detailed and specific level. The least specific level is the HS2 categorisation and the most detailed level is at the HS8.

surrounding the EPAs emerged as the five year window period neared its end in late 2007 (Julian & Makhan, 2007). The ACP RTAs, like the SACU, SADC, Economic Community of West African States (ECOWAS),⁵ etc., and individual member countries adopted a variety of negotiation positions with respect to the EPA offers they would accept from the EU. The various categories or attributes of different interim EPAs signed by different African countries are presented in detail in ECDPM and ODI (2008). Within this legal and time constrained negotiation environment, the EU proposed what was dubbed a 'flexible' two-step approach to conclude the EPA deals.⁶ The deals would "focus on signing 'interim' and WTO-compatible EPAs on goods market access with ACP regions, sub-regions or individual non-Least Developed Countries (LCD). (And) all remaining details would then be negotiated and agreed to in early 2008". If some of the ACP countries were unable to sign these interim deals they would then be subjected to the General System of Preferences (GSP). This would lead to ACP countries facing higher export tariffs (Julian & Makhan, 2007:14).

3.1 The SADC group

At the end of 2007 the members of the SADC region, which includes Botswana, worked towards accepting the EPA market access in goods agreement, with most discussion taking place within SACU. But the members were not in full agreement for a common position with respect to trade in agricultural products and services that would be suitable to country-specific economies and their development goals. For instance, the BLNS countries⁷ in SACU, which do not possess the same levels of economic development compared to South Africa⁸ (and which have had *significantly* lower levels of bargaining power within SACU), had different ambitions and economic pursuits regarding trade agreements affecting their agricultural export products. While Botswana's concerns were focussed on protecting the preferential access of her beef exports to the EU, Tanzania's concerns revolved around protecting her fisheries industries and South Africa's interests lay with pursuing a more liberal trade environment, which was encouraged by the TDCA with the EU. It was, therefore, hardly surprising that the various SADC member countries signed their EPAs with varied intentions and within different regions. For example, Tanzania signed her EPA within the East Africa Community (EAC) and South Africa chose not to sign the SADC-

⁵ Only three countries initialled an EPA in this region (Cameroon, Ghana and Cote d'Ivoire (European Centre for Development Policy Management (ECDPM) and Overseas Development Institute (ODI), 2008).

⁶ Many critics pointed out that this EU offer would in the long term undermine the development goals of ACP countries as initially envisaged in the EPA negotiations in 2002 (Rampa, 2007).

⁷ Botswana, Lesotho, Namibia and Swaziland

⁸ South Africa's level of GDP was in 2007 estimated at \$576 bill (US) compared to Botswana at \$18 bill and Lesotho at \$6 bill, for example.

negotiated EPAs at the start of 2008. The BLNS countries in SACU (including Mozambique) in the SADC region signed EPAs with the EU, which maintained preferential access into selected EU markets. The agreements were only provisional and were to be negotiated further to include trade agreements on issues like trade in services.

These intra-regional developments pose serious questions with regard to the political cohesiveness and economic sustainability of the regional grouping. But more important is to understand what is really at stake for some of the SACU members in their EPA negotiations and what economic consequences their choices could have in their short and long run attempts at economic development. For example, how would the EPAs affect poverty alleviation efforts and attempts at reducing economic inequalities in a country like Botswana? Before this analysis, a review of some trade theory on how trade may or may not lead to economic development and social equality is presented, forming a framework for the discussion.

4. A review of some trade theory

Cattaneo and Dodd (2007) report that trade liberalisation would only lead to poverty⁹ reduction if potential and positive net income, material and social assets accumulating from the process were effectively distributed in favour of the poor. For this assertion to be true trade liberalisation must result in positive net incomes, social assets, etc., and for these net gains to result in reduced levels of poverty and inequality, some mechanism should be in place to redistribute effectively the income and social assets for the benefit of the poor in society. To be noted is that the same assumptions also form the initial ideological thinking in favour of the long run developmental goals of the EU's EPA negotiations with ACP countries (Rampa, 2007).

With respect to the first link between trade liberalisation and net economic growth, conflicting evidence exists on whether the liberalisation process leads to higher growth. In cross country studies conducted by Dollar (1992) and Sachs and Warner (1995) evidence was presented indicating that the liberalisation process indeed leads to net growth. However, Rodrigues and Rodrik (2001) contend that these findings were based on weak empirical evidence and inaccurate measures of open trade. Nevertheless, economists now generally accept that for trade openness to result in positive economic growth within a country, complementary policies should be in place. For example such policies must encourage internal investments (Taylor, 1998) and build on appropriate institutional arrangements (Rodrik, 1999).

⁹ Poverty is defined as 'absolute'.

Most neoclassical approaches, which link trade liberalisation to the accumulation and distribution of incomes, rely on the Heckscher-Ohlin model and its Stolper-Samuelson corollary (Samuelson, 1971). The Heckscher-Ohlin model concludes that a country holds a comparative advantage in goods whose production is based on comparatively abundant factors. This means that any trading country should focus on production processes that use the country's most abundant factors, relative to trading partners. Such is the case because opening trade would increase the relative price of the exported product which uses the most abundant input. This would expand that export sector as well as the demand for factor inputs used. In a production process, which for example is reliant only on capital and labour inputs and which is also labour intensive, the real wage would increase. Such is the case because in that sector the returns to capital would (together with the prices of competing import goods) fall. Using this framework, the Stolper-Samuelson corollary concludes that if, for example the agricultural sector, used primarily unskilled labour, then trade liberalisation would benefit that type of labour input at the expense of skilled labour in an unskilled labour abundant country (Cattaneo & Dodd, 2007; Winters *et al.*, 2004).

But such neoclassical approaches have a number of limitations, mostly flowing from the assumptions made in the Heckscher-Ohlin model. For example, the assumption of perfectly competitive markets in developing countries is not only misleading but far from realistic. The corollary also fails to deal with middle income economies, which have a mix of skilled and unskilled labour inputs. In such economies, the gains from trade could only be achieved based on who the trading partner is (i.e. a relatively more developed or a less developed trading partner). Another limitation here is that the trading partners are only engaged in bilateral trade activities.

Furthermore, McKay *et al.* (1997), Winters (2000) and Cattaneo and Dodd (2007:9) also argue that an unskilled labour pool in a given country may not be necessarily composed of the most poor section of society. The poor are often excluded from formal labour markets. Again, the distributional effects of trade liberalisation processes not only depend on the wages of the poor but also on the consumption patterns of the poor. Hence a more realistic framework for analysis was developed by Winters (2000), and is also presented in McCulloch *et al.* (2001) and Winters *et al.* (2004) (see Figure 1).

The framework recognises the institutional and social factors in linkages between trade liberalisation, economic growth and poverty reduction, which go far beyond the Stolper-Samuelson framework. It helps in exploring the real trade effects on poor households and individuals within production, labour

markets and households as well as in government revenue generation and expenditure patterns. In this framework no generalisations can be extrapolated for all countries or sectors.

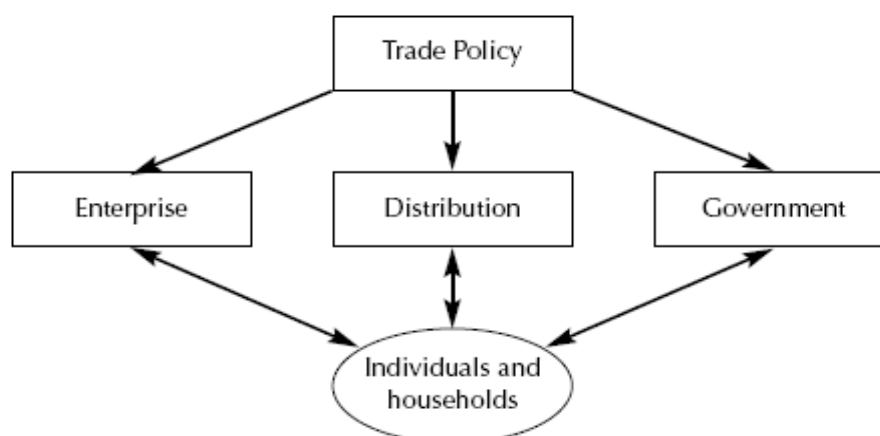


Figure 1: The analytical scheme of links between trade policy and poverty (Source: McCulloch *et al.*, 2001:66)

In Figure 1, a representation of how trade policy effects are transmitted to the poor is illustrated. Various market and government transactions as influenced by trade policy, distribute incomes, material and social assets among different economic players, which include individuals and households. Winters *et al.* (2004) also propose that questions aimed at investigating links between these transactions and poverty alleviation need to look at how poor individuals and households are affected in terms of development. They also propose that these questions should be grouped into four key areas; a) growth and stability, b) behaviour of households and markets, c) wages and employment, and d) government's social policy role. For example, questions that need answers in the area of behaviour of households and markets should investigate; a) the way in which border price shocks are transmitted to local households, especially the poor, b) the way in which markets are either destroyed or created for the same households, c) if there are any positive or negative spill-over effects for poor households, and d) the way in which open trade policy limits or enhances risk vulnerability of the poor (Winters *et al.*, 2004).

This means that research answers need to be based on a broad and deep understanding of the various drivers of a given economy, in this instance, of Botswana. The questions also require a thorough understanding of the objectives of the most important development and trade public policies (including challenges). The drivers and policies would then dictate how and in which sectors price shocks are transmitted for the benefit and/or loss of market players/sectors. An overview of Botswana's economy, trade policies and agreements are presented in the following section. The overview provides

the basis for discussing how, for example, Botswana's EPA position would affect economic sectors and whether it would benefit its poor.

5. Botswana's economic trends, trade policies and agreements

Since 1965 Botswana's economy has grown remarkably. For example, in the 1970s some years were characterised by real GDP growth rates of more than 15%.¹⁰ In the last forty years the mining sector has been the core driver of the country's economic growth. In 2007, this sector contributed 41% towards national real GDP. In comparison, the government sector contributed 17%, the trade and the financial services sector contributed 11% each (Figure 2).

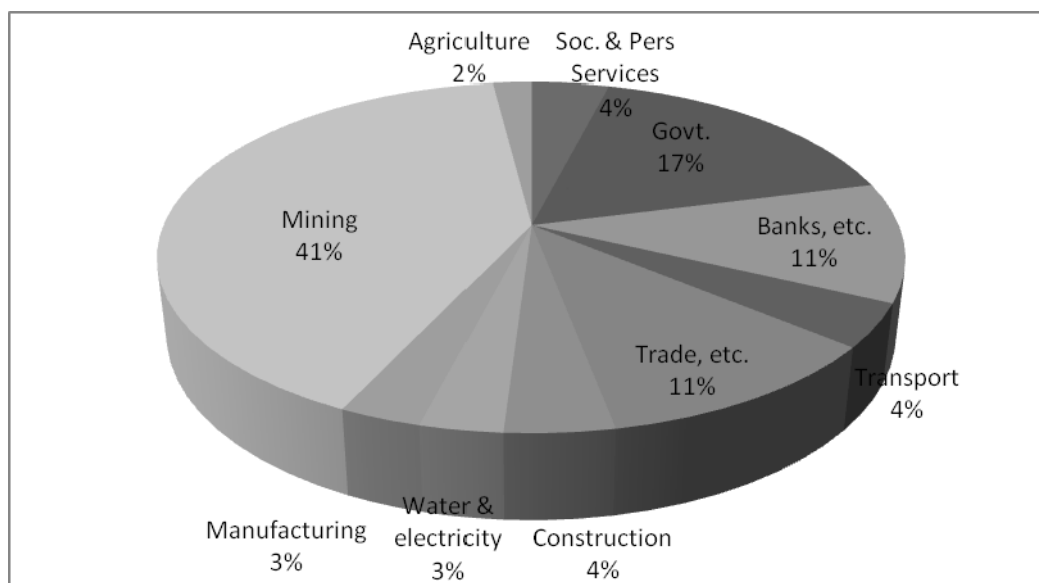


Figure 2: Sectoral contributions towards total GDP (Source: Econsult, 2007:5)

The figure presents a picture of an economy with little diversity away from the mining¹¹ and government sectors. The domination of the mining sector has also ensured that minerals contributed 78% towards total exports in the last ten years, with a significant trade surplus in merchandise exports. Although very small in comparison, exports in services have also grown at an average of 28% per annum in nominal terms between 1995/6 and 2005/6, a rise from seven to 20%.

Botswana's import flows, on the other hand, were fairly diversified in 2006. Machinery, fuel and food contributed close to 50% of total merchandise imports. While a majority of Botswana's exports went to the EU, most of her

¹⁰ For example, in 1978 Botswana's GDP growth rate was twenty percent

¹¹ Mining of minerals, especially of diamonds (which accounts for close to 80% of total exports).

imports came from the SADC region (especially from South Africa). Table 1 presents a percentage breakdown of export and import trade flows for 2006.

Table 1: Botswana's 2006 export and import trade flows in nominal terms

| Principal exports (%) | | Principal merchandise imports (%) | |
|-----------------------|-----|-----------------------------------|----|
| Diamonds | 78 | Machinery & electric equipment | 18 |
| Copper Nickel | 14 | Fuel | 16 |
| Textiles | 3 | Food, beverages & tobacco | 13 |
| Soda ash | 1.8 | Chemicals, rubber products | 13 |
| Beef | 1.3 | Vehicle & transport equipment | 11 |
| Vehicles | 0.7 | Textiles, wood, furniture, etc. | 11 |
| | | Metals & metal products | 8 |
| Gold | 0.8 | Other | 10 |

(Source: UNDP, 2008)

The flows in Table 1 indicate that only a small percentage of export markets had a direct effect or link to poor people in Botswana. The small agricultural and textiles sectors in terms of export contributions employ mostly the unskilled and semi-skilled labour force and most of those involved in the beef sector reside in rural communities (ODI, 2007). Around two thirds of the rural population are found to be directly or indirectly dependent on agriculture (FAO, 2005:1). Livestock rearing, specifically, is central to these agricultural activities and BIDPA (2006:62) argues that this is an important contributing factor to poverty alleviation and development, also because 75% of cattle owners are small-scale farmers with a herd size of between one and nineteen cattle. Moreover with, a) structurally low productivity rates especially on communal lands, b) strong linkages between the export sector and the rural economy, Jefferis (2007, cited in ODI, 2007) argues that the supply response in beef production to world price changes is highly elastic. Therefore, although Botswana's agricultural sector is relatively small in terms of real GDP and formal employment contributions, it remains highly important to populations who are formally and informally employed in rural areas (BEDIA, 2008).¹²

On the other hand, the dominant mining sector had little direct relevance to the poor, with only three percent of formal employment reported for that sector. This was followed by trade services at 14%, manufacturing (12%), etc. (Figure 3). The government sector, on the other hand, was the biggest formal employer at 38% (Econsult, 2007).

¹² The BEDIA (2008) also estimates Botswana's cattle population at close to 3 million and of which 80% is kept in traditional systems.

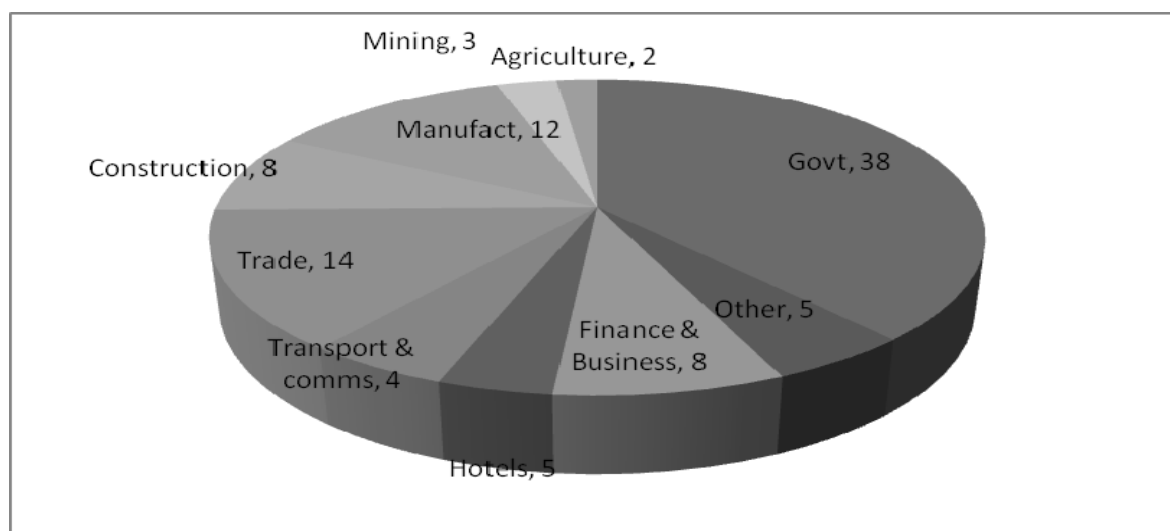


Figure 3: A breakdown of formal employment by sector as a percentage
(Adapted from Econsult, 2007)

A comparative juxtaposition of the employment breakdown (in Figure 3) on trade patterns (in Table 1) and the general economy (in Figure 2) form a useful application of Winters *et al.* (2001) analytical framework presented in Figure 1. For trade to have a meaningful effect on poverty reduction there needs to be a strong direct link between a majority of trade markets and economic activities of poor sections of society. This strong and direct link does not exist in Botswana. However, it is still obvious how open trade is important to the economy of Botswana as whole, mainly because of its big mining sector. *Indirectly*, the magnitude of the government's fiscal redistribution role (from the mining sector to other quarters) ensures that a link between mining and the poor exists (Republic of Botswana, 2006:23-25).¹³

Nonetheless, Botswana's export markets need to be developed further to strengthen the direct trade and poverty linkages for the benefit of the poor and also to diversify economic activity away from diamond mining (WTO, 2007). Moreover, as a net importer of food, beverages and tobacco, it should be obvious that Botswana needs to formulate *export* policies and be part of trade agreements that protect the, especially the rural poor. With respect to imports from South Africa, the BLNS countries (in SACU) need to have a greater influence on South Africa's import policies. In the following subsections some of her trade policies and agreements are outlined.

¹³ The government sector's important role as the biggest formal employer in the economy and fiscal planner, with most of its revenues generated from mineral exports (i.e. 47%) ensured the existence of an indirect link between trade (esp. mining) and the poor (Republic of Botswana, 2006:23-25).

5.1 The trade policy framework

To support private sector led export growth, Botswana has entered into bilateral, regional and multilateral trade agreements with numerous partners. The most important of these are outlined in Table 2. They are differentiated by geographical scope, type and status.

Table 2: Botswana's important trade agreements

| Agreement | Type and current status | Geographical scope |
|--------------------------|---|--------------------|
| WTO | Doha round of negotiations is ongoing. Other agreements under the WTO include the GATS, SPS agreement, Agreement on agriculture, Agreement on technical barriers to trade, Agreement on trade in intellectual property rights, etc. | Multilateral |
| SACU | A customs union that was established in 1910 with a commonly shared external tariff and revenue. The latest renegotiated mandate was in 2002. This came with a new revenue sharing formula and institutions. It is argued that because of South Africa's dominant position in SACU, the BLNS countries have become <i>de facto</i> signatories to the Trade Development Cooperation Agreement (TDCA, 1999). The agreement gradually seeks to build a free trade area between South Africa and the EU after 12 years (i.e. in 2012). By then, the liberal TDCA tariffs will effectively apply to the whole SACU region | Regional |
| SADC FTA | Based on SADC Trade Protocol. Through the ongoing tariff reduction schedules, SADC countries are to liberalise their tariffs fully by 2012. Negotiations on a framework agreement for liberalisation of services are ongoing. | Regional |
| EPAs with EU | A trade in goods agreement has been signed between the EU and a sub group of SADC which include Botswana, Lesotho, Mozambique, Namibia and Swaziland. Angola is aiming to also sign an EPA (refer to background discussion in Section 2). | Regional |
| AGOA | A unilateral agreement of the US offering AGOA eligible countries enhanced market access under the GSP scheme. Botswana's LDC status was granted in August 2001 | Regional |
| SACU-MERCOSUR | A trade agreement between SACU and Mercosur, which was concluded and signed in 2005. Mercosur's member countries are Argentina, Brazil, Paraguay and Uruguay | Regional |
| Botswana-Malawi | A bilateral trade agreement for reciprocal duty-free entry between Botswana and Malawi. It came into force in 1956 | Bilateral |
| Botswana-Zimbabwe | A bilateral trade agreement for reciprocal duty-free entry between Botswana and Zimbabwe. It came into force in 1988 | Bilateral |

(Source: UNDP, 2008)

From the list in Table 2, it is clear that even though the EPAs are very important for Botswana, they are not her only trade negotiation platform. Also given the fact that most of the country's imports in merchandise and services come from the SACU region while her most significant exports to the EU are tariff free diamonds, Botswana has more than the EPAs to consider in formulating beneficial trade policies. Nonetheless, the EPA is important for

Botswana's agricultural exports, hence it remains relevant in the fights against poverty through trade policy. Therefore, the question of whether or not Botswana and its neighbours took economically sound positions in signing or rejecting the EPAs is an important one.

6. The EPAs and Botswana

It is argued that in terms of making immediate gains in total welfare, it was sensible for Botswana to sign an EPA with the EU. In terms of achieving her long term developmental goals, however, it is not so clear cut that the signing was as sensible. This is also speculated on in Rampa (2007) and Makhan (2007). Being part of the SACU region, the case of Botswana's EPA negotiations should not only be analysed by comparing its economic outcomes to the MFN or GSP tariff schedules, but also to outcomes stemming from South Africa's TDCA (refer to Table 2). More than 75% of Botswana's imports come from the SACU region, of which a majority comes from South Africa. Because of the SACU common external tariff, Botswana was by and large subjected to tariffs paid at South African borders (Tralac, 2008c). In addition, because of the common revenue sharing formula, all BLNS countries receive positive net trade revenues from SACU's common revenue pool, while South Africa's net revenue from the same pool is negative. The implication is that South Africa not only controls the (trade) policies of BLNS countries via its dominance in exports to BLNS markets, but also via the net revenue transfers to SACU countries (Tralac, 2008a). Therefore, the TDCA tariff schedule was always bound to have serious effects on the welfare of Botswana and other SACU members.

6.1 The EPA effects on exporters and consumers

If Botswana were not to sign an EPA with the EU, she would lose all preferential access into EU markets offered under the Cotonou Agreement. More than likely her exporters would have to pay tariffs applicable under the GSP schedule for which Botswana as a middle income developing country would be eligible. But the GSP system excludes beef and its products, which are the second most important export for Botswana. Hence upon losing the Cotonou preferences, Botswana would face the MFN tariff schedule for its most important exports, which are also the most relevant to her poor households. In that scenario Botswana's beef exports would have experienced applied tariffs increase from 5% under the Cotonou agreement to MFN tariffs ranging from 70 to 140%. The potential tariff increases from losing the Cotonou provisions to being subjected to the MFN are illustrated for Botswana and its competitors in Table 3 (ODI, 2007). In Table 3, it is also apparent that

Botswana's share of the EU import market (even with the current favourable agreement) is small, at 0.4% minimum to 14% maximum, compared, to say, big exporters like Brazil (at 43 to 78%, respectively). However, Botswana's share is comparable to Namibia's.

Table 3: EU markets for Botswana beef and its major competitors

| Partner | Imports 2006 | | EU tariff 2007 | | Duty payable (€000) | | Ad valorem equiv. | | ACP post-Cotonou (e) |
|--|---------------|----------------|--------------------|-----------------------|---------------------|---------------|-------------------|-------------|----------------------|
| | Value (€000) | Volume (100kg) | In-quota (c) | Out-of quota | Current (a) | | Current (a) | | |
| | | | | | in quota (d) | out quota | in quota (d) | out quota | |
| CN 02013000: fresh or chilled bovine meat, boneless | | | | | | | | | |
| Brazil | 419,622 | 731,769 | 20% | 12.8% + 303.4€(b) | 83,924 | 275,730 | 20% | 66% | |
| Argentina | 345,042 | 478,241 | 20% | 12.8% + 303.4€(b) | 69,008 | 189,264 | 20% | 55% | |
| Uruguay | 90,874 | 138,866 | 20% | 12.8% + 303.4€(b) | 18,175 | 53,764 | 20% | 59% | |
| Australia | 46,750 | 81,023 | 20% | 12.8% + 303.4€(b) | 9,350 | 30,566 | 20% | 65% | |
| Namibia | 23,110 | 44,451 | 0%+24.2€(a) | 0% + 303.4€(b) | 1,076 | 13,486 | 5% | 58% | 71% |
| Botswana | 19,574 | 36,668 | 0%+24.2€(a) | 0% + 303.4€(b) | 887 | 11,125 | 5% | 57% | 70% |
| Chile | 7,746 | 14,818 | 0% | 12.8% + 303.4€(b) | - | 5,487 | 0% | 71% | |
| New Zealand | 7,418 | 11,813 | 20% | 12.8% + 303.4€(b) | 1,484 | 4,534 | 20% | 61% | |
| Canada | 5,914 | 6,729 | 20% | 12.8% + 303.4€(b) | 1,183 | 2,799 | 20% | 47% | |
| CN 02023050: frozen bovine boneless crop, chuck and blade and brisket cuts | | | | | | | | | |
| Brazil | 12,172 | 58,806 | 20% | 12.8% + 221.1€(b) | 2,434 | 14,560 | 20% | 120% | |
| Namibia | 2,882 | 14,894 | 0%+17.6€(a) | 0% + 221.1€(b) | 262 | 3,293 | 9% | 114% | 127% |
| Botswana | 2,630 | 9,520 | 0%+17.6€(a) | 0% + 221.1€(b) | 168 | 2,105 | 6% | 80% | 93% |
| Uruguay | 600 | 2,696 | 20% | 12.8% + 221.1€(b) | 120 | 673 | 20% | 112% | |
| Argentina | 427 | 1,635 | 20% | 12.8% + 221.1€(b) | 85 | 416 | 20% | 98% | |
| Thailand | 54 | 250 | 20% | 12.8% + 221.1€(b) | 11 | 62 | 20% | 115% | |
| New Zealand | 12 | 45 | 20% | 12.8% + 221.1€(b) | 2 | 11 | 20% | 97% | |
| CN 02023090: frozen bovine boneless meat (excl. forequarters, whole or cut into a maximum of five pieces, each quarter being in a single block "compensated" quarters in two blocks, one of which contains the forequarter, whole or cut into | | | | | | | | | |
| Brazil | 288,866 | 834,361 | 20% | 12.8% + 304.1€(b) | 57,773 | 290,704 | 20% | 101% | |
| Uruguay | 46,555 | 109,898 | 20% | 12.8% + 304.1€(b) | 9,311 | 39,379 | 20% | 85% | |
| Argentina | 20,813 | 55,209 | 20% | 12.8% + 304.1€(b) | 4,163 | 19,453 | 20% | 93% | |
| New Zealand | 9,209 | 12,305 | 20% | 12.8% + 304.1€(b) | 1,842 | 4,921 | 20% | 53% | |
| Botswana | 1,508 | 6,310 | 0%+24.3€(a) | 0%+304.1€(b) | 153 | 1,919 | 10% | 127% | 140% |
| Namibia | 802 | 2,677 | 0%+24.3€(a) | 0%+304.1€(b) | 65 | 814 | 8% | 101% | 114% |

(Mirror data compiled by the ODI (2007:14) from the Eurostat set)¹⁴

With potential MFN ad valorem equivalent tariffs, for the CN 02023090 classification of beef products, likely to increase from 0 to 140% and with Botswana share of the EU market, it is inconceivable that Botswana could export any beef to the EU under the MFN conditions. "The imposition of MFN duties would be equivalent to 80 percent of the revenue obtained in the EU market in 2006. It is hard to imagine even niche markets sustaining a price hike of this level or of the sector finding offsetting cost savings" (ODI, 2007:17).

¹⁴ Notes: (a) calculated on the value/volume of 2006 imports

(b) per 100 kg net

(c) Applies to high-quality (CN 0201300010) only.

(d) ACP duties/AVEs shown are for within ACP Protocol quotas only, not any global quotas which may apply.

(e) assuming MFN rate, out-of quota

A future with the MFN schedule tariffs applicable with the EU alongside a low level of competitiveness of Botswana's beef export sector (refer to Table 3) would also impose huge challenges in finding alternative markets in countries like South Africa.¹⁵ Under the 2008 SADC EPA, however, Botswana gained Duty Free Quota Free (DFQF) market access for all products, excluding sugar, rice, etc. Trade in these products still required further negotiation and agreement. In any case, Weidlich (2008) argues that the DFQF access to the EU for countries like Botswana and Namibia would, as of July 2008, have to be reciprocated by a similar magnitude of market access for EU exporters, on 80% of traded goods.

Nonetheless, to further illustrate these likely negative effects¹⁶, not only directly on the beef sector, but on the top eight¹⁷ (in monetary value terms) of Botswana's export products, Table 4 compares the levels of EPA, MFN, and the TDCA¹⁸ tariffs schedules on corresponding products. The comparison reiterates the argument that without the Cotonou agreement or a similarly favourable SADC EPA, Botswana's exporters would be greatly disadvantaged.

Table 4: Botswana's top eight EU exports (at HS6 level) versus bound tariff rates

| HS6 code | Product description | EPA tariff offer | TDCA tariff schedule (<i>in 2012</i>) | MFN average tariff schedule |
|----------|--|------------------|---|-----------------------------|
| 020130 | Bovine cuts boneless, fresh or chilled | 0.0 | 3.0 | 5.3 |
| 020230 | Bovine cuts boneless, frozen | 0.0 | 0.8 | 5.7 |
| 022290 | Hide sections, bovine, nes, fresh or wet-salted | 0.0 | 10.4 | 13.4 |
| 610910 | T-shirts, singlets and other vests of cotton, knit | 0.0 | 0.0 | 5.4 |
| 880330 | Aircraft parts nes | 0.0 | 0.0 | 4.6 |
| 611090 | Pullovers, cardigans etc. of material nes knit | 0.0 | 0.0 | 3.2 |
| 840910 | Parts for spark-ignition aircraft engines | 0.0 | 0.0 | 2.0 |
| 490700 | Documents of title (bonds etc), unused stamps etc. | 0.0 | 0.0 | 0.3 |

(Source: MacMap, 2008; TIPS, 2008; Tralac 2008b)

¹⁵ The fact that there are no reported beef exports into SACU, even though trade is unrestricted in the union further illustrates Botswana's lack of competitiveness in beef exports.

¹⁶ From losing the provisions of the Cotonou Agreement.

¹⁷ Excluding raw diamonds and products.

¹⁸ The most liberal of this schedule after 2012.

Compiled from different data sets (MacMap, 2008; Tralac, 2008b), Table 4 shows that the EPA schedule still presented Botswana with the least costly and most beneficial alternative for its top eight export products. The MFN schedule remained the most costly alternative with increases at 134% for some beef product classes. At the end of its liberalisation process in 2012, the TDCA schedule will still be less costly compared with the MFN. Based on the predictable immediate gains from the new EPAs to Botswana exporters, it makes sense that Botswana signed the SADC EPA with the EU to avoid facing the MFN (or even the TDCA) tariffs for its most important export products like beef.

In fact the monetary gains, from the Duty Free Quota Free EU access component alone via the SADC EPA, were estimated by the ODI (2007) at 18.98 mill euros using the MFN base and at 1.27 mill euros using the Cotonou agreement as the base. These are illustrated in Table 5 for 2006 exported volumes. Potential gains from the 1996 to 2006 export volumes (of 11.25 tons) are also presented for the respective schedules.

Table 5: Value of duty free quota free EU market access for Botswana's beef exporters

| Period | Export volumes | Monetary benefits of DFQF | |
|-----------|----------------|---------------------------|---------------------|
| | | Compared to MFN | Compared to Cotonou |
| 2006 | 5.25 tons | 18.96 mill euros | 1.27 million euros |
| 1996-2006 | 11.25 tons | 36.01 mill euros | 2.47 million euros |

(Source: ODI, 2007)

It is clear that the 2008 SADC EPA appears to have presented Botswana's beef exporters significant immediate benefits when compared to no EPA (i.e. MFN) or when compared to the old Cotonou agreement. The benefits could be even higher if the Botswana beef sector was competitive enough and could meet its annual allocated quota of 18.9 tones to the EU under the Cotonou agreement.

In any case, in any general equilibrium analyses, it is difficult to separate the effects on production from those of consumption, for example with respect to consumers who are also employees in sectors under investigation. These complex linkages were not even captured by the framework illustration in Figure 1. But the linkages of the beef sector and its exports to the livelihoods of poor households were demonstrated in the presentation of Botswana's economy. Therefore, the EPA - facilitated access to EU markets should have contributed immensely to the sector's sustainability and growth, and losing that access would have been detrimental to the rural economy of Botswana, which is heavily reliant on beef production.

6.2 What are the long term effects on SACU import arrangements and development?

Some of the reported reasons for South Africa not signing an EPA with the EU are telling with regard to potential future costs of this agreement. These relate to potential costs to regional integration as well as national industrial development objectives.¹⁹ As mentioned in Section 3, the 2008 EPA offers were only provisional, and they applied only to trade in goods.²⁰ The second phase of the negotiations would include trade in services, investments, telecommunications, etc. In addition, when the time came for the DFQF access to be reciprocated for EU exporters in countries like Botswana, it can be concluded that this will lead to *great* confusions regarding which import tariff schedules to apply to EU imported products (i.e. current SACU (effectively TDCA) versus reciprocated EU free access). This will be a *big institutional challenge* for all SACU members.

An analysis of the EPA impacts on Botswana's import markets²¹ and her general welfare must consider the following points:

- a) Currently, the EU imports to Botswana are not that significant, because an overwhelming 76% of Botswana's imports originate from the SACU region and more specifically from South Africa (WTO, 2007). A percentage breakdown of Botswana's important imports was provided in Table 1. In any case, SACU originated products are imported at zero rates within the RTA.²²
- b) The composition, percentage breakdown and origin of products in Table 1 will more than likely change if the reciprocated EPA free access makes these and other substitute products from the EU relatively cheaper than from SACU.
- c) Since Botswana's import tariffs are the common SACU tariffs, the effects of any new tariffs must be compared to the effects of South Africa's TDCA, since it has been argued that the TDCA provided the effective tariff schedule for the whole SACU region given South Africa's dominance in the region.

¹⁹ For instance, in the long run the protection provided by the SADC EPAs will not promote competitiveness in the Botswana's beef sector.

²⁰ The second round EPA negotiations will still have to cover trade in services, investment, finance, telecommunications, transport, energy, etc.

²¹ The direct and in-depth analysis and discussion of the likely EPA impacts on Botswana's imports are not presented in this paper

²² The most important imported products from the EU are listed in order of significance in Appendix 1. The overlap between these products and those listed in Table is very small, which further indicates the current and relative insignificance of the EU's imports to Botswana, and more so to the poor.

On the other hand, since it is not clear yet what effects the EPA negotiations on services, investments, etc., would have on Botswana and other SACU members (Rampa, 2007). Therefore, although the EPAs may appear attractive when looking at immediate gains for sectors like Botswana's exporters it is most likely that a high level of adjustment costs will be incurred in future. These are theoretically estimated at US\$ 359 million per year during the first years of liberalisation (ECDPM and ODI, 2008:3).

Among various factors that South Africa cited as reasons for not signing an EPA was the likely damage that such agreements would have on current and *infant* regional integration efforts (Weidlich, 2008). For instance, in the current case where SACU members have signed *member specific* EPAs²³ with the EU (ECDPM and ODI, 2008), it will be institutionally challenging for these countries to institute their own and different import tariff cuts for EU exporters. This will interfere with the SACU external common tariff and revenue pool.²⁴ It would then require a renegotiation of the SACU agreement. Basically, the costs stemming from this type of weakening of regional trade institutions would be hard to quantify but most definitely high.

Connected to the allegation from various quarters that the current EPAs have betrayed their initial development agenda for ACP countries (e.g. Makhan, 2007; Rampa, 2007) was South Africa's refusal to sign an EPA, because the agreement would undermine the country's trade-based industrial policies. Among other factors, the signing of a liberal TDCA with the EU was to implement the South Africa's competition policies. An EPA, otherwise, would undermine any competitiveness of local industries. It is then quite ironic that while Botswana has accused South Africa and her dominance in SACU for undermining her own industrialisation history (UNDP, 2008), Botswana has signed an EPA which, at least in the short run, offers a high level of protection to inefficient local exporters. With the signing of the TDCA, South Africa opted to expose her industries to international competition at a much faster rate than EPAs would allow.

That the signing of an EPA by Botswana would undermine her development potential was also a conclusion reached by Sigwele and Tseko (2005). They reached their conclusion by outlining a stream of income benefits that Botswana would forego were she not to embrace a fast paced liberalisation process, which conforms to the Article XXIV WTO trade rules. They used a

²³ With different time frames to liberalise, different basket of goods for exclusion, etc.

²⁴ It is argued by the ECDPM and ODI (2008) that such developments may lead to other trade barriers and trade deflections being created within the RTAs.

general equilibrium analysis to explore, for example, the poverty effects on Botswana's economy through real income fluctuations. They concluded that:

- a) The overall reduction in tariffs was most likely to enhance per head consumption of non-meat products and other luxury goods (e.g. furniture and cars), because most of these goods were imported,
- b) The real incomes of skilled employees would increase by a percent for a ten percent increase in beef export earnings, assuming that lower tariffs would facilitate such an increase,
- c) Households with self-employed members in rural and urban areas would experience a two percent real wage increase, but
- d) Households who relied on remittances would not benefit from any increased beef export earnings, also assuming that the sector would remain competitive without any EPA protection,
- e) In general, the beef sector, and its employees, would reap higher benefits compared to outsiders,
- f) Even though Botswana would face adjustments costs in the short run, most of which would be faced by rural households as indicated by the ODI (2007), their findings, in general, indicated a positive economic outlook at a macro-economic level, because of being more liberalised.

These findings, however, are based on crucial but contestable assumptions. Firstly, compared to BLNS countries, it must be conceded that South Africa is already at a much higher level of industrial development and has a much more diversified economy. Hence, in the process of liberalisation, the adjustment costs it faces could not be as high as those facing the BLNS countries. Therefore South Africa could easily afford to forego any immediate EPA protection and benefits. In the case of Botswana, however, and contrary to Sigwele and Tseko's (2005) conclusions, it cannot be assumed that a higher level of liberalisation would immediately lead to higher earnings in the beef or any other export sector. In fact, as argued by the ODI (2007), the opposite is more likely.

Moreover, and in line with the ODI (2007) conclusions, the UNDP (2008) using the Agricultural Trade Simulation Model (ATPSM)²⁵ and global trade flow data (TIPS, 2007) concluded that a cut in global tariffs and a reduction in domestic support would instead lead to drops in surplus earnings of Botswana's beef producers, given a high price elasticity of beef's supply (ODI, 2007). For example, an across the board 60% cut in import tariffs would lead to an estimated loss of around P70 million in Botswana's beef producer surplus.

²⁵ The model has the following limitations: a) partial equilibrium analysis, b) assumes that monopoly powers do not exist in global markets, c) agricultural goods are perfect substitutes, d) non-price supply and demand developments are not captured, e) no built-in income variable.

Hence, whether or not Botswana really required the level of protection offered by the EPA, especially in the long term, remains hotly contestable.

From the evidence presented, the decision for Botswana to sign an EPA makes sense only if short term gains for producers in affected sectors, like beef exports are taken into account. This should also include a consideration for protecting vulnerable rural communities who depend on these sectors for their livelihoods. The long run poses its own costs. Such costs are also reflected in South Africa's decision not to sign an EPA, but to remain committed to the TDCA, which is better aligned to the country's industrial development objectives. Hence, if the long run developmental costs by far exceed any immediate benefits from an EPA, such an agreement cannot be justified.

7. Conclusion and recommendations

Botswana should begin to look seriously into the future. Her trade policies and agreements should complement her industrial development policies. While she has to protect her vulnerable sectors and communities this should not come at the expense of developing a globally competitive, diversified and sustainable economy. The signing of an EPA may have been sensible in protecting some agricultural sectors (like the beef sector) and rural households who were dependent on it; however, the move had associated costs with regard to the country's long term development.

With EPAs having been signed by Botswana and other SACU members (excluding South Africa), one of the biggest challenges for the region has to be institutional in nature. The EPA signatories in SACU must now formulate and apply tariff schedules to EU exports to reciprocate the EU's DFQF offer. These pose a conflicting challenge to SACU's common external tariff and revenue sharing as agreed to in 2002. For such import tariff schedules to be independently set for EU exporters by the EPA signatories, the SACU members would have to renegotiate the 2002 agreement.

In making these decisions, Botswana has to think about how her current imports from SACU, especially from South Africa would be affected. In the event that the SACU agreement breaks down, all BLNS countries may have to forego any net benefits from the common revenue pool. Many of the institutional challenges posed on the SACU agreement by the EPA, also apply to the proposed SADC FTA with fourteen members. Such challenges may in fact be bigger considering SADC's relatively young age. These costs of the institutional challenges from the EPAs would also be hard to quantify.

Otherwise, if somehow the 2002 SACU agreement remains intact, Botswana and other SACU members would still have to contend with the economic implications of South Africa's TDCA with the EU. As argued, many of the BLNS countries already pay TDCA tariff rates to imports from South Africa, which originate from the EU. Hence, at the moment the Botswana-EU EPA is really relevant as it only affects beef exports to the EU.

Moreover, if Botswana plans to stick by her interim EPA with the EU, soon she must formulate effective policy positions for the next phase of negotiations on services, investment, finance, telecommunications, etc. But even more important, Botswana and other ACP countries have to engage the EU's alleged betrayal of the initial EPA's development agenda. This could be approached from securing the EU's commitment to development aid to ACP countries. In fact, with such aid in place, it would be much easier for Botswana to embrace trade liberalisation at a faster rate, which would mean less need for a protective measure like an EPA.

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Appendix 1: Botswana's most important EU imports

| Rank in monetary value | HS code | Description |
|------------------------|---------|--|
| 1 | H710231 | Diamonds (Jewellery) unworked or simply swan, cleaved |
| 2 | H852520 | Transmit-receive apparatus for radio, TV, etc. |
| 3 | H880240 | Fixed wing aircraft unladen weight > 15 000 kg |
| 4 | H842952 | Shovels and excavations with revolving superstructure |
| 5 | H300490 | Medicaments nes, in dosage |
| 6 | H840710 | Aircraft engines, spark-ignition |
| 7 | H847330 | Parts and accessories of data processing equipment nes |
| 8 | H845730 | Multi-station transfer machines for working metal |
| 9 | H846220 | Machine tools to bend, fold, shear or process metal, nes |
| 10 | H382200 | Composite diagnostic or laboratory reagents, nes |

(Source: *Tips*, 2008)