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Trends of Trade Flows of Countries in the EAC and SADC Regions and Perspectives for the Tripartite Free Trade Area[1]

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The Tripartite Free Trade Area (T-FTA) encompassing the 26 member countries of the East African Community (EAC), the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA) is currently under negotiation with the aim of widening and consolidating existing cross-cutting regional integration processes. To gauge the likely trade effects of the proposed T-FTA, this policy note analyses the development of intra-regional trade flows within the EAC and SADC regions during the 2000-2010 period. To discuss the potential influences of the Economic Partnership Agreement (EPA) negotiations between the European Union and these regions on their participations in the T-FTA, this note also presents development of the two regions' trade flows with the EU in relation to their existing and possible future trade arrangements with the EU. For comparison purposes, the two regions trade with other key external trade partners are also mentioned.

General Trends of Intra-Regional Trade

Intra-regional trade in the EAC and SADC regions have been on rapid relative growth in the past decade. In the EAC, total intra-regional exports increased from around US$500 million in 2000 to more than US$2.36 billion in 2010, an increase of almost four folds (see Figure 1). During the same period, EAC's total exports to the world grew at a slightly slower pace, increasing from US$2.67 billion to 11.35 billion. As a result, the share of intra-EAC exports in the region's total exports actually increased from 18.7% in 2000 to 20.8% in 2010 (see Figure 2), possibly suggesting that regional integration in the EAC has had a positive effect on intra-EAC exports. On the import side, the EAC countries generally maintained large trade deficits as its total imports were more than twice as much as its total exports in value terms during the 2000-2010 period.[2] As a result, share of intra-EAC imports in the region's total imports remained quite small (only about 6.4% in 2009).

Figure 1. EAC exports by destinations (mn USD)

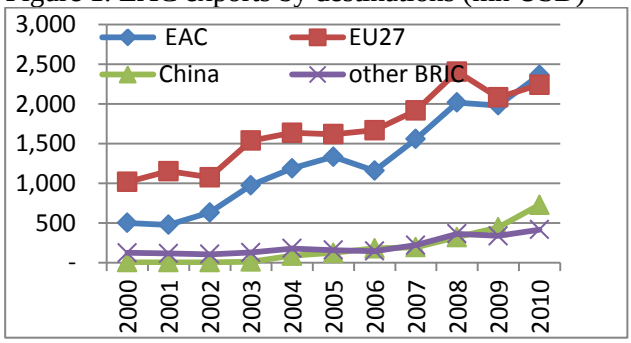
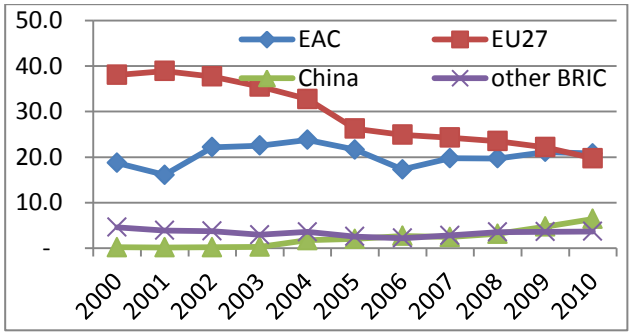


Fig 2. EAC export shares by destination (%)



Similarly, total exports from the SADC countries to the world increased from around US$38.4 billion to nearly 96.9 billion in 2010, with the peak reaching over 100 billion in 2008 (see Figure 3).[3] During the period, between 4% and 5.7% of

[1] This brief is prepared for the *Task Force on Trade and Development* of the Danish Ministry of Foreign Affairs under the policy study "Regional Integration in Eastern and Southern Africa." The author, an associate professor of international economics at the University of Copenhagen, acknowledges fruitful discussions with the *Task Force*; however, views expressed here are the author's alone and are not necessarily those of the Danish Ministry of Foreign Affairs or the University of Copenhagen.

[2] Due to data availability and quality as well as differences in valuations, intra-regional imports and exports reported respectively by the EAC and SADC are not easily reconcilable.

[3] Not all SADC countries reported data to the COMTRADE database, with Angola and DR Congo

these exports went to South Africa, the region's largest economy. The share of total intra-SADC exports in the region's total exports, however, remained quite stable between 2000 (15.3%) and 2010 (18%), although it peaked at 18% in 2006 (Figure 4).

Fig 3 SADC exports by destinations (mn USD)

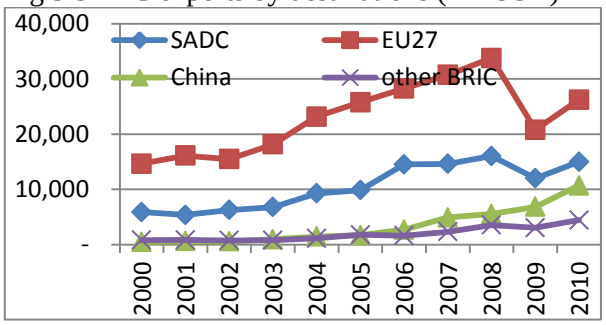
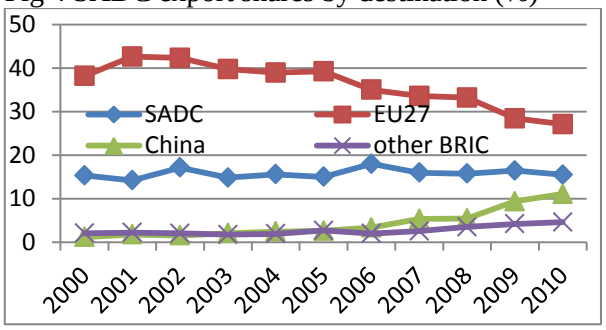


Fig 4 SADC export shares by destination (%)



SADC's total imports from the world exceeded its total exports by a relatively smaller margin, as compared to the situation for EAC. In 2000, SADC imported roughly the same amount from the world as it exported to the world. By 2010, however, its total imports exceeded its total exports by about 25%. In terms of import sources, South Africa had been an important source of imports into the other SADC countries but its share had been gradually declining from the peak of 19.5% in 2002 to 11.6% in 2010. Still, South Africa remains a more important source of imports for other SADC countries, as compared to its role as an export destination (with an export share of only 4.2% in 2010). Furthermore, share of total intra-SADC imports in total SADC imports remained quite stable at around 17%, again suggesting that growth of intra-SADC trade flows by and large tracked that of total SADC trade flows.

missing for all years. Total SADC trade data are aggregated from countries represented in COMTRADE.

Product Diversification and Upgrading of Intra-Regional Trade

Most EAC and SADC countries generally export very limited ranges of products to other countries in the same region at the beginning of the period considered. This is evident by the very high shares of the top-5 export items at HS6 level in these countries' total regional exports. For instance, in seven SADC countries, intra-SADC export shares of their top-5 products exceeded or were close to 50% in 2000. The exceptions are larger economies in these regions with more diversified export baskets such as South Africa and Kenya.

However, intra-regional exports have become more diversified along the product space in recent years for all the EAC countries and many SADC countries. For instance, in 2010, export shares of top-5 products from Burundi, Uganda and Tanzania decreased significantly from the 2000 levels by 18 to 40 percentage points. Kenya continued to have the most diversified export baskets with the share of its top-5 exports dropping from 28.2% to 22.7%. This is also the case for about two-third of the SADC countries, with the exceptions being Mozambique, Namibia, Tanzania, and Zimbabwe, where export shares of top-5 products actually went up in the period due to mostly rises of one or two major export products. In addition, there is also some evidence of upgrading from primary and unprocessed products to light manufacturing and processed products in some countries. For instance, Tanzania's top exports in 2010 include fertilizers, textiles, and liquefied natural gas.

Development of Bilateral Trade Flows with the EU and Other Major Trade Partners

The most dramatic changes in destinations of EAC's exports are associated with the relative importance of the markets of the EU, China, and other Sub-Saharan African countries (excluding South Africa and the EAC countries themselves; OSSA for short hereafter). The OSSA region's

share of EAC exports rose from 6.7% in 2000 to 15.1% in 2010 and that of China increased from 0.2% to 6.4%. The combined increase of export shares of OSSA and China (about 14.6 percentage points), together with the increased share of intra-EAC exports (2.1 percentage points), explains much of the declining share of the EU market (from 38% in 2000 to 19.7%, a reduction of 18.3 percentage points. See Figure 2). It is important to also note that in value terms, the EAC's exports to the EU actually increased from around US$1 billion to 2.24 billion during the period; however, this increase is at a much slower pace as compared to the EAC's exports growth to other markets, resulting in reducing relative importance of the EU market.

In terms of sources of imports into the EAC, China and other BRIC countries' shares also increased significantly from 9.6% to 24.5%, whereas the EU's share decreased from 27% to 17%. Surprisingly, although the EAC increased its exports to the OSSA region, the importance of the OSSA region as a source of imports was more or less unchanged.

In the SADC region, there had not been noticeable relative changes in SADC's exports to South Africa or other African countries outside of SADC. In fact, the share of SADC's exports to the other Sub Saharan African countries (i.e. Sub Saharan Africa minus the SADC region) only increased marginally during the period (from 2.3% in 2000 to 3.9% in 2010). In contrast, SADC's exports to China and the other BRIC countries increased quite significantly. Specifically, SADC's exports to China increased from US$445 million in 2000 to 10.7 billion in 2010 (Figure 3), leading to an increased export share of nearly 10 percentage points for China. On the flip side, despite a near doubling of SADC's export values to the EU, the share of SADC's exports destined to the EU market actually decreased from 38.1% to 27.1%, a reduction of 11 percentage points (Figure 4).

On the import side, China also elevated its status as a major import source for SADC with its share of SADC's imports rising from 3.6% in 2000 to 12.2% in 2010. In fact, SADC's imports from China in 2010 were more than ten times of that in 2000, having increased from US$445 million to US$ 5.5 billion during that period. Despite these changes, the EU still maintained its position as the largest import source for SADC as its share of SADC's imports was only reduced from 32.5% in 2000 to 26.4% in 2010, far smaller than the reduction of its export share.

The EAC-EPA and SDC-EPA negotiations and the T-FTA

All five countries in the EAC are members of the EAC-EPA group, while in the SADC region only seven countries participate in the SADC-EPA negotiations, with the rest of the region mainly joining the ESA-EPA group.

Along with its diminishing share of total EAC exports, the EU's importance as an export market for individual EAC countries has also been reduced across the board during the period, which greatly contrasts the rising importance of the EAC's other export markets. For the four Least Developed Countries in the EAC (Burundi, Rwanda, Tanzania, and Uganda) who would continue enjoying the benefits of the EBA in the absence of an EPA, diminished relative importance of the EU market perhaps explains their lukewarm attitudes towards the EPA negotiations, as there does not seem to be great export expansions to be gained on the EU market by joining the EPA. The story for Kenya, the only non-LDC in the EAC region, is quite different. Kenya's exports to the EU have been quite significant for the whole period, reaching US$1.2 in 2010, which was more than the combined exports from the rest of the EAC to the EU for that year. Unlike the rest of the EAC, Kenya did not enjoy the EBA access to the EU market and signing a final EPA would likely further increase Kenya's exports to the EU. Therefore, it is understandable for Kenya to push for the final EPA.

The offensive interests of Kenya from a mercantilist perspective in signing the final EAC-EPA may, however, be counteracted by the

potential surge of EU imports as a result of implementing the EPA. In fact, Kenya's imports from the EU have generally been twice as much as its exports to the EU during the considered period. As such, a reciprocal EPA – which likely requires Kenya to substantially lower its own trade barriers – would likely lead to significantly more imports into Kenya, thereby worsening Kenya's bilateral trade balance with the EU. Indeed, judging from the similar relative trade deficits the other EAC members have already had with the EU, it is probable that their trade balances would further deteriorate following the implementation of a balanced final EPA, at least in the short to medium run.

There are seven SADC countries currently participating in the negotiations of the final SADC-EPA with the EU, including Angola, Botswana, Lesotho, Mozambique, Namibia, Swaziland, and South Africa. Four of these countries (Botswana, Namibia, Swaziland, and South Africa) are non-LDCs that also belong to the South Africa Custom Union (i.e. the SACU which also includes Lesotho, a LDC), a long standing trade bloc with South Africa as the core. Both Botswana and Namibia export significant shares of their total exports to the EU. Therefore reaching a final EPA with the EU should be of high importance for them. However, the bilateral trade agreement South Africa has signed with the EU under the Trade, Development and Cooperation Agreement (TDCA) implies that South Africa's interests are not necessarily aligned with the rest of SACU in reaching a final EPA, even though maintaining the SACU may be also of importance. From this point of view, there appears to be some tensions in the SACU sub-region as well in the SADC-EPA group regarding how to balance their own regional integration process while negotiating the EPA with the EU.

Conclusions

Intra-regional trade in the EAC and SADC have grown rapidly during 2000-2010, keeping pace with the growth of these two regions' total trade flows. This suggests that there are indeed potentials for increasing intra-regional trade via regional integrations. There is also some evidence of product diversification and upgrading in intra-regional exports in these regions. In relative terms, EAC's intra-regional trade grew more rapidly than that of SADC's, possibly due to deeper regional integration achieved in the former region. These results attest to potential benefits of further regional integration in Africa such as the T-FTA.

The EU remains the largest trade partner of the two regions but its importance has diminished, especially as an export market and particularly for the EAC. In contrast, the BRIC countries, especially China, have become important trade partners (as both an import source and an export destination) for both regions. In addition, other African countries have become a dynamic growth region for EAC's exports although its role as a source of imports remains limited.

The EPA negotiations, initiated by the EAC and SADC regions' largest trading partner EU, are still to be finalized at a time when countries in the two regions are aiming at achieving deeper and wider integration through negotiating the T-FTA. Different member countries in the two regions, however, may have different interests in the EPA negotiations due to their current trade positions and differential current trade arrangements with the EU. The EPA negotiations – despite its potential benefits – may have triggered complications for the EAC and SADC countries to maintain their current regional integration arrangements and to effectively participate in more ambitious new regional integration processes such as the T-FTA. Therefore, it is important for the EU to provide much needed assistance to the indigenous regional integration processes in the EAC and SADC regions as well as in the wider T-FTA area, not the least in making the relevant potential final EPA agreements more flexible and enabling for the T-FTA process.

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