

The Impact of the EU-SA Free Trade Agreement on Selected Countries within COMESA

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Abstract

The paper analyses the impact of the EU–SA Free Trade Agreement (FTA) on the exports of six COMESA countries namely Egypt, Kenya, Malawi, Mauritius, Zambia and Zimbabwe. These particular countries were selected out of all COMESA countries on the basis of the importance of their trade with both South Africa and the EU.

The paper seeks to establish within partial equilibrium imperfect substitutes Armington models the extent to which the exports of selected products are displaced by the free access of EU exports into the South African market, and South African exports into the EU market. Despite the existing preferential access into these markets granted to the six COMESA countries, this displacement occurs through the reduction in relative preference given to these countries.

One hundred and seventy products are modelled using a four-market model comprising South Africa, the EU, the COMESA country being analysed, and the rest of the world. The results of the partial equilibrium analysis indicate that the EU-SA FTA has displaced COMESA's exports to both the EU and South African markets by between one and five percent on average. The overall degree of displacement depends on the product and country under analysis. Furthermore, the magnitude of the results are shown to be sensitive to the assumptions made on the Armington elasticities, as well as the domestic demand and the import supply elasticities. In addition, numerical problems were encountered when certain combinations of the elasticities were assumed. In particular these results highlight the importance of the values of the Armington elasticities that are used in partial equilibrium modelling as well as the limitations of the Armington approach.

The paper concludes that the formation of preferential trading agreements can lead to varying levels of trade diversion for those countries that can least afford it and who are not party to the agreements.