

**The impact of the EU free trade agreement on South African agriculture:
A general equilibrium analysis**

by

Niels Penzhorn

Submitted

in partial fulfillment of the requirements

for the degree of

MSc Agric

Department of Agricultural Economics, Extension and Rural Development

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Niels Penzhorn

Purdue University/Luxemburg

June 2000

ABSTRACT

**THE IMPACT OF THE EU FREE TRADE AGREEMENT
ON SOUTH AFRICAN AGRICULTURE:
A GENERAL EQUILIBRIUM ANALYSIS**

by

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Degree MSc Agric

Department Agricultural Economics, Extension and Rural Development

Study Leader Prof J.F. Kirsten

The Free Trade Agreement signed between South Africa and the European Union (EU) during 1999 has received a lot of attention because of its significance in more than one respect. Not only is it the first bilateral trade deal to be signed between a developing country and a developed region, but it also bears testimony to South Africa's renewed efforts to stimulate its economy and job creation through exports.

Free trade areas are, however, not always beneficial in terms of welfare creation. Trade diversion effects can possibly erode all gains. Countries excluded from the deal are definitely destined to experience welfare losses. Despite recent developments aimed at closer regional cooperation in Southern Africa, South Africa's neighbors are excluded from the free trade agreement, and trade flows between South Africa and the rest of the region are likely to diminish because of new preferential access for South Africa's products into the EU and vice versa. When the Lomé agreement expires during the year 2000, SADC countries could even find themselves left without any preferential access to the European Union.

The objective of this study is to analyze the effects on Southern Africa of the free trade deal concluded between South Africa and the EU, with special emphasis on the agricultural sector. The study makes use of the GTAP software and methodology developed in part at Purdue University, which provides a very convenient and efficient way for interpreting changes in trade flows due to tariff structure adjustments. The study gives a detailed account of change in trade flows and the resulting welfare effects. It is found that both South Africa and the EU will experience welfare gains as a result of the agreement. The rest of Southern Africa and the rest of sub-Saharan Africa are faced with welfare losses.

The study shows that, despite criticism of the lop-sided structure of the deal favoring the EU, South Africa gains more than the EU from the agreement. Although overall production does not increase in South Africa, the terms-of-trade effect and gains in efficiency are mainly responsible for the positive welfare gains in that country. This is an aspect that might have been overlooked by those criticizing the deal and its overall effect.

UITTREKSEL

DIE IMPAK VAN DIE VRYHANDELSOOREENKOMS MET DIE EU OP SUID-AFRIKA SE LANDBOU: 'N ALGEMENE EWEWIGS ANALISE

deur

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Die Vryhandelsooreenkoms wat gedurende 1999 geteken is tussen Suid-Afrika en die Europese Unie (EU), het wye aandag geniet, weens sy belangrikheid in meer as een opsig. Dit is nie alleen die eerste bilaterale handelsooreenkoms tussen 'n ontwikkelende en 'n ontwikkelde land nie, maar dit is verder 'n aanduiding van Suid-Afrika se hernude poging om sy ekonomie te stimuleer en om nuwe werksgeleenthede te skep deur middel van uitvoere.

Vryhandelsgebiede is egter nie altyd voordelig in terme van welvaartskepping nie. "Trade diversion" implikasies is in staat om alle moontlike voordele uit te wis. Lande wat uitgesluit word van die ooreenkoms is nie te min verseker van welvaartsverliese. Ten spyte van onlangse pogings tot nouer samewerking in Suider Afrika, is Suid-Afrika se bure uitgesluit van die vryhandelsooreenkoms. Daar word dus verwag dat handelsvolumes sal afneem tussen Suid-Afrika en die streek, weens die nuwe voordelige toegang tot die Europese markte vir Suid-Afrikaanse produkte en vice versa. SADC lande kan hulself dalk binnekort in 'n posisie sonder enige voordelige toegang tot Europese markte bevind wanneer die Lomé ooreenkoms gedurende die jaar 2000 verstryk.

Die doel van hierdie studie is om die impak van die vryhandelsooreenkoms met die EU op Suid-Afrika en Suider Afrika te ondersoek, met besondere fokus op die landbousektor. Die studie maak gebruik van die GTAP sagteware en metodologie, wat gedeeltelik aan die Purdue Universiteit ontwikkel is. Die sagteware bied aan die gebruiker 'n akkurate en vinnige wyse waarop veranderinge in terme van handelsvolumes weens tariefveranderinge ondersoek kan word. Die studie gee 'n gedetailleerde oorsig oor veranderinge in die vloei van handelsvolumes en dui op die gevolglike veranderinge in welvaart vir alle betrokke partye. Daar is gevind dat Suid-Afrika en die EU baat by die ooreenkoms in terme van welvaartskepping. Die res van Suider Afrika en die hele Sub-Sahara streek doen egter welvaartsverliese op.

Die studie wys daarop dat ten spyte van die kritiek weens die oënskynlike ongelyke tydskedule vir tariefverlagings ten gunste van die EU, Suid-Afrika nog steeds meer baat by die ooreenkoms as die EU. Alhoewel die algehele produksie in Suid-Afrika nie toeneem nie, is dit hoofsaaklik die "Terms-of-Trade" effek en verhoging in effektiwiteit wat vir die grootste gedeelte van die welvaartsaanwinste verantwoordelik is. Hierdie twee effekte is heelwaarskynlik buite rekening gelaat deur diegene wat die ooreenkoms en sy gevolge kritiseer.

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