

Identifying priority products and sectors for bilateral trade negotiations: The case of AGOA beyond 2025

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MCom International Trade

Thesis accepted in fulfilment of the requirements for the degree *Doctor of Philosophy* in **Economic and Management Sciences** at the North-West University

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Graduation: October 2020

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ACKNOWLEDGEMENTS

I give thanks and praise to my Lord in heaven for the gift of life, health, wisdom, and all the providences extended to me in pursuing this study. Undoubtedly, nothing is impossible if the Lord is on your side.

I am greatly indebted towards the following individuals who have facilitated the completion of this study:

- My promoter, Prof EA Steenkamp, for her invaluable advice, support and encouragement throughout the course of this study.
- My co-promoter, Prof M Matthee, and assistant promoter, Dr SJ Jansen van Rensburg, for their invaluable insights, support and inspiration throughout the course of this study.
- My beloved wife, ME Mhonyera, and my sons, McMillan Gareth and Gabriel Caleb Junior, for their priceless love and support.
- My parents, Boniface and Grace, for their everlasting love, support and encouragement.
- My family, friends (Dr E Orkoh, in particular) and fellow students, for their multi-dimensional motivation and support.

The financial assistance of the World Trade Organization (WTO) towards this study is hereby acknowledged.¹

¹ Opinions expressed and conclusions arrived at are those of the author and should not necessarily be attributed to the WTO.

SUMMARY

Since the inception of the World Trade Organization (WTO) in 1995, multilateralism has been the dominant approach to trade liberalisation. However, the trade negotiation and trade agreement landscape is evolving, shifting from multilateral focus to bilateralism and/or regionalism. Even though the inclination towards bilateralism is growing, in the preparation phase of the bilateral trade negotiation process, the evidence on product-level prioritisation methods, specifically designed to inform trade negotiations by considering both countries' core export competences and the size, growth and consistency of the import demand, is silent.

Most of the trade policy analysis methods applied in the preparation phase of bilateral trade negotiations measure the macro-level impact of trade policy. Hence, negotiating parties tend to focus on as many products and sectors as possible in the negotiations, and may lose sight of their core export competencies and the size, growth and consistency of the import demand. Moreover, some developing countries may face capacity constraints in terms of trade policy analysis and negotiation as a consequence of inadequate resources, insufficient analytical capacity and lack of expertise. This may adversely affect their capability to better prepare for trade negotiations and eventually the fairness, survival and sustainability of trade relations resulting from such negotiations. Product-level prioritisation is therefore crucial, not only in addressing capacity constraints that some developing countries may face, but also in contributing to inclusive trade agreements with greater implementation support.

From a trade policy standpoint, there is lingering uncertainty surrounding the renewal of the African Growth and Opportunity Act (AGOA) after its expiry in 2025. However, Southern Africa Customs Union (SACU) members and many other Sub-Saharan Africa (SSA) AGOA beneficiary countries primarily access the United States of America (USA) market through AGOA. The uncertainty surrounding the renewal of AGOA means that the post-AGOA trade relationship between SACU and the USA is undefined. This study proposes that, to be pro-active, SACU has to re-engage the USA in negotiations of a Bilateral Trade Agreement (BTA) that builds on AGOA by strengthening trade and investment relations, while addressing AGOA drawbacks and taking reciprocity into account.

The main objective of this thesis is to contribute to the trade negotiation literature by developing a product-level prioritisation method, which specifically considers both countries' core export competencies and the size, growth and consistency of the import demand, to inform bilateral trade negotiations. The method is suggested for implementation into the preparation phase of the bilateral

trade negotiation process in order to enhance the fairness, survival and sustainability of trade relations resulting from such negotiations.

To achieve the main objective of this study, elements of three research methodologies, namely the Global Trade Analysis Project (GTAP) model, the Decision Support Model (DSM), and the International Trade Centre's Market Attractiveness Index (MAI) were combined to develop the product-level prioritisation method. The method was applied in the case of SACU and the USA to identify products and sectors that both parties should prioritise in the potential SACU-USA bilateral trade negotiations.

The results of the product-level prioritisation method identify 407 products for SACU to prioritise when entering into the potential SACU-USA trade negotiations. Likewise, the prioritisation method identifies 161 products that the USA should prioritise in the negotiations of the same potential trade deal. The majority of the priority products for SACU fall within the textiles and clothing, machinery and electrical, chemicals and allied industries, metals, and food products sector. Similarly, the majority of products that the USA should prioritise fall within the machinery and electrical, textiles and clothing, chemicals and allied industries, and metals sector.

In the USA market, the product-level prioritisation method also identifies 99 products for SACU to additionally prioritise for negotiation, in terms of Non-Tariff Measures (NTMs), in the potential SACU-USA reciprocal trade agreement. The majority of the additional priority products for SACU fall under the chemicals and allied industries, food products, vegetables and vegetable products, animal and animal products, textiles and clothing, and metals sector.

Keywords: AGOA; bilateralism; capacity constraints; DSM; exports; imports; multilateralism; negotiation process; SACU; sustained export opportunities; trade policy; USA.

OPSOMMING

Sedert die Wêreldhandelsorganisasie (WHO) in 1995 tot stand gekom het, was 'n multilaterale benadering tot handelsliberalisering meer prominent. Die landskap van handelsonderhandelinge en -ooreenkomste is egter besig om te verander en het verskuif van 'n multilaterale na 'n meer bilaterale en/of streeksfokus. Alhoewel die geneigdheid tot bilaterale handelsooreenkomste toeneem, is daar geen bewyse in die literatuur van prioriteringsmetodes op produkvlak, wat toegepas is binne die voorbereidingsfase van die bilaterale handelsonderhandelingsproses nie. Veral nie produkvlak prioriteringsmetodes wat spesifiek ontwerp is om handelsonderhandelinge in te lig deur beide die kernuitvoerbevoegdheids van die lande en die grootte, groei en konsekwentheid van die invoervraag in ag te neem nie.

Die meeste van die handelsbeleidsanalise-metodes wat in die voorbereidingsfase van bilaterale handelsonderhandelinge toegepas is, meet die makro-vlakimpak van handelsbeleid. Gevolglik is die onderhandelingspartye geneig om soveel moontlik produkte en sektore in die onderhandelinge in te sluit, en sodoende kan hul kernuitvoerbevoegdheids en die grootte en groei van die invoervraag uit die oog verloor. Boonop mag sommige ontwikkelende lande kapasiteitsbeperkings ondervind met die ontleding van handelsbeleid as gevolg van onvoldoende hulpbronne, analitiese kapasiteit en kundigheid. Dit kan hul vermoë om beter voor te berei op handelsonderhandelinge en uiteindelik die regverdigheid, oorlewing en volhoubaarheid van handelsbetrekkinge wat volg uit sulke onderhandelinge, benadeel. Prioritering op produkvlak is dus van kardinale belang, nie net om die kapasiteitsbeperkings wat sommige ontwikkelende lande in die gesig staar aan te spreek nie, maar ook om by te dra tot inklusiewe handelsooreenkomste met groter implementeringsondersteuning.

Vanuit 'n handelsbeleidssoogpunt bestaan daar voortslepende onsekerheid oor die hernuwing van die *African Growth and Opportunity Act* (AGOA) ná die verstryking daarvan in 2025. Die lede van die Suid-Afrikaanse Doeanesunie (SACU) en baie ander AGOA-begunstigde lande in Afrika suid van die Sahara (SSA) verkry hoofsaaklik toegang tot die Verenigde State van Amerika (VSA) deur AGOA. Die onsekerheid rondom die hernuwing van AGOA beteken dat die handelsverhouding tussen SACU en die VSA na AGOA nie gedefinieer is nie. Hierdie studie beveel aan dat SACU, om proaktief te wees, die VSA weer moet nader in die onderhandeling van 'n bilaterale handelsooreenkoms (BTA) wat voortbou op AGOA. Veral met die oog op die versterking van handels- en beleggingsbetrekkinge, terwyl die nadele van AGOA aangespreek word en wederkerigheid in ag geneem word.

Die hoofdoel van hierdie proefskrif is om by te dra tot die handelonderhandelingsliteratuur deur 'n prioriteitsmetode op produkvlak te ontwikkel, wat beide lande se kernuitvoerbevoegdheids asook

die grootte, groei en konsekwentheid van die invoervraag spesifiek in ag neem. Sodoende word waardevolle inligting vir bilaterale handelsonderhandelinge verskaf. Die metode word voorgestel vir implementering binne die voorbereidingsfase van die bilaterale handelsonderhandelingsproses ten einde die billikheid, voortbestaan en volhoubaarheid van handelsbetrekkinge wat spruit uit sulke onderhandelinge, te bevorder.

Om die hoofdoelwit van hierdie studie te bereik, is elemente van drie navorsingsmetodologieë, naamlik die *Global Trade Analysis Project* (GTAP) -model, die *Decision Support Model* (DSM) en die *International Trade Centre* se mark-aantreklikheidsindeks (MAI), gekombineer vir die ontwikkeling van die prioriteitsmetode vir bilaterale handelsonderhandelinge op produkvlak. Die metode is toegepas in die geval van SACU en die VSA om produkte en sektore te identifiseer wat beide partye in die moontlike bilaterale handelsonderhandelings tussen hulle behoort te prioritiseer.

Die resultate van die prioriteringsmetode identifiseer 407 produkte wat SACU moet prioriseer wanneer die potensiele SACU-VSA-handelonderhandelinge onderneem word. Net so identifiseer die prioriteringsmetode 161 produkte wat die VSA in die onderhandelinge van dieselfde potensiele handelstransaksie behoort te prioriseer. Die meerderheid van die prioriteitsprodukte vir SACU val binne die volgende sektore: tekstiel en kleding, masjinerie, elektriese, chemiese en verwante nywerheid, metale en voedselprodukte. Net so val die meerderheid van die produkte wat die VSA moet prioriseer binne die masjinerie-, elektriese-, tekstiele en kleding-, chemiese en verwante nywerheid- en metale sektore.

In die VSA-mark identifiseer die produkvlakprioriteringsmetode ook 99 addisionele produkte vir SACU om te prioriseer vir onderhandeling in terme van nie-tariefbeperrings in die moontlike SACU-VSA-wederkerige handelsooreenkoms. Die meerderheid van die bykomende prioriteitsprodukte vir SACU val onder die volgende sektore: chemiese en verwante nywerheid, voedselprodukte, groente en groenteprodukte, diere- en diereprodukte, tekstiele en kleding en metale.

Sleutelwoorde: AGOA; bilaterale; kapasiteitsbeperrings; DSM; uitvoer; invoer; multilateralisme; onderhandelingsproses; SACU; volgehoue uitvoergeleentheid; handelsbeleid; VSA.

ABBREVIATIONS

AAs	Agricultural Agreements
ACP	Africa, Caribbean, and Pacific
ADB	Asian Development Bank
AfCFTA	Africa Continental Free Trade Agreement
AfDB	African Development Bank
AGOA	African Growth and Opportunity Act
APEC	Asia-Pacific Economic Cooperation
AVEs	<i>ad-Valorem</i> Equivalents
BDI	Federation of German Industries
BEC	Broad Economic Categories
BITs	Bilateral Investment Treaties
BTAs	Bilateral Trade Agreements
CBERA	Caribbean Basin Economic Recovery Act
CBI	Caribbean Basin Initiative
CBTPA	Caribbean Basin Trade Partnership Act
CGE	Computable General Equilibrium
CIS	Commonwealth of Independent States
CMs	Common Markets
COMESA	Common Market for Eastern and Southern Africa
CU	Customs Union
DAFF	Department of Agriculture, Forestry and Fisheries
DDA	Doha Development Agenda
DRC	Democratic Republic of Congo

DSM	Decision Support Model
DTI	Department of Trade and Industry
EAC	East African Community
EBA	Everything but Arms
EC	European Commission
E-Commerce	Electronic Commerce
EFTA	European Free Trade Association
EnC	Enabling Clause
EPAs	Economic Partnership Agreements
EU	European Union
EV	Equivalent Variation
Excl.	Excluding
FAO	Food and Agriculture Organization
FOB	Free on Board
FOC	Fisheries and Oceans Canada
FTAs	Free Trade Agreements
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GSP	Generalised System of Preferences
GSTP	Global System of Trade Preferences
GTAP	Global Trade Analysis Project
HHI	Herfindahl-Hirshmann Index

HS	Harmonised System
IMF	International Monetary Fund
Incl.	Including
ITA	International Trade Administration
ITC	International Trade Centre
LDCs	Least Developed Countries
LII	Legal Information Institute
MAI	Market Attractiveness Index
MC	Ministerial Conference
MFN	Most Favoured Nation
MITI	Ministry of International Trade and Industry
MTAs	Multilateral Trade Agreements
NAFTA	North America Free Trade Area
NDP	National Development Plan
NDPr	Net Domestic Product
NGOs	Non-Governmental Organisations
NPC	National Planning Commission
NTLs	National Tariff Lines
NTMs	Non-Tariff Measures
OECD	Organisation of Economic Co-operation and Development
PD	Prisoner's Dilemma
PluTAs	Plurilateral Trade Agreements
PTAs	Preferential Trade Agreements
RCA	Revealed Comparative Advantage

RMA	Revealed Import Advantage
RTA	Revealed Trade Advantage
RTAs	Regional Trade Agreements
SACU	Southern Africa Customs Union
SADC	Southern Africa Development Community
SAGNA	South African Government News Agency
SAIIA	South African Institute of Internal Affairs
SDT	Special and Differential Treatment
SPS	Sanitary and Phytosanitary Measures
SSA	Sub-Saharan Africa
TBT	Technical Barriers to Trade
TDCA	Trade, Development and Co-operation Agreement
TIDCA	Trade, Investment and Development Cooperation Agreement
TIFAs	Trade and Investment Framework Agreements
TOT	Terms of Trade
TPP	Trans-Pacific Partnership
TRALAC	Trade Law Centre
TTIP	Transatlantic Trade and Investment Partnership
UN COMTRADE	United Nations Commodity Trade Statistics Database
UNCTAD	United Nations Conference on Trade and Development
UNITAR	United Nations Institute for Training and Research
US	United States
US\$	United States Dollar
USA	United States of America

USDC	United States Department of Commerce
USG	United States Government
USITC	United States International Trade Commission
USMCA	United States-Mexico-Canada Agreement
USTR	United States Trade Representative
WAEMU	West African Economic and Monetary Union
WB	World Bank
WBI	World Bank Institute
WH	White House
WTO	World Trade Organization
WWII	World War II

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CHAPTER 1: INTRODUCTION

1.1 Background

The proposition that free trade among countries enhances overall economic welfare is overwhelmingly acknowledged in economic and international trade literature (Irwin, 1996). However, free trade is only possible through trade agreements, which are an outcome of trade negotiations. Both trade negotiations and trade agreements fall within the broader context of trade policy (Cabling & Low, 2010). In its narrowest form, trade policy refers to various government measures or arrangements that directly or indirectly influence the development and expansion of international trade (Jessie, 2018; Agrawal *et al.*, 2019). It generally has a strong negotiated component with most international trade negotiations culminating into trade agreements aimed at liberalising trade (Dür, 2015).

Most of the literature on the rationale for trade negotiations and trade agreements focuses on conventions aimed at restricting the opportunistic application of trade policies (Grossman, 2016). Even so, there is a wide range of considerations that explains why countries seek to negotiate and participate in trade agreements (Whally, 1998). For instance, trade agreements can be viewed as fundamentals of strategic alliances, and hence indirectly form part of security arrangements (Wilkins, 2015). For smaller countries, trade agreements with larger partners are perceived as a way of attaining additional security for their access to larger countries markets (Whally, 1998). Some countries view trade agreements as a way of locking in domestic policy transformations and make it extremely difficult to reverse afterwards (Michalopoulos, 2002). Other countries see trade agreements as tactical mechanisms aimed at achieving foreign policy objectives, rewarding allies, intimidating an opponent, or disciplining an antagonist (Lindsay, 1986). It is also not uncommon for countries to utilise prior trade arrangements as policy tools to influence subsequent multilateral trade negotiations (Charnovitz, 2001).

Since the formation of the World Trade Organization (WTO) in 1995, multilateralism has been the dominant approach to liberalise trade. However, the trade negotiation and trade agreement landscapes are evolving, shifting from multilateral focus to bilateralism. In fact, Bilateral Trade Agreements (BTAs) have grown more rapidly since the inception of the WTO, and they have become a noticeable feature of international trade (WTO, 2017a). The proliferation of this type of agreements may be partially attributed to frustrations with the multilateral trade negotiations as evidenced by the delay in the conclusion of the Doha Round of talks (Lester, 2016). In addition, the negotiation and implementation of BTAs is quicker and easier in comparison to Multilateral Trade Agreements (MTAs) (McMahon, 2006).

1.1.1 International trade negotiations

Saner (2012) defines negotiation as a process whereby two or more parties seek an agreement to establish what each shall offer or take, or perform and receive in a transaction between them. Fowler (1996) defines negotiation as a process of interaction by which two or more parties seek, using argument and persuasion, to resolve their differences in order to achieve a mutually acceptable solution. These two definitions point out that negotiation is a process and not an event. Hence, international trade negotiations are multifaceted processes, involving many stakeholders who may each possess diverse vested interests in the negotiation (International Trade Centre [ITC], 2018a).

What is certain in any trade negotiation is that there are gains to be sought and positions that must be protected. In this regard, each participant in the negotiation must have a clear depiction of where the fundamental and significant elements (i.e. the bottom lines²) of the negotiating parties are (Raifa, 1982). This is not always the case, as the bottom line of the other participants is often unspecified. In most instances, one party to the negotiation is occasionally disadvantaged by an asymmetric knowledge problem³ (Cooke, 2005). As a result, there are often winners and losers in trade negotiations, although a win-win outcome is more ideal (Sandrey, 2013). It is therefore imperative to enhance capacity prior to participating in trade negotiations.

Trade agreements can be negotiated at multilateral, plurilateral, unilateral, regional and bilateral level. Multilateral⁴ trade negotiations comprise simultaneous negotiation over multiple trade issues by all the 164 WTO Member States and territories (WTO, 2017a). The negotiations are undertaken under the auspices of the WTO, with the aim of achieving a trade agreement acceptable to all parties (Touval, 1989). Non-multilateral trade negotiations, on the other hand, usually involve negotiations that cover a few trade-related issues, by two or more parties, which may be countries or regional blocs or a combination of the two. However, what is similar between multilateral and non-multilateral negotiations is that they are all determinations of liberalising trade and improving market access (United Nations Conference on Trade and Development [UNCTAD], 2004).

Typically, outcomes of multilateral trade negotiations possess superior benefits in comparison to non-multilateral trade negotiations. Such benefits include tariff reductions on a non-discriminatory basis, fair treatment for all participants, consistent and predictable domestic trade regimes, dispute resolution mechanisms, expanded market opportunities, and improved prosperity (Maggi, 1999;

² The bottom line refers to what the negotiating parties anticipate to be the least possible outcome of the entire negotiation process (Raifa, 1982).

³ One party has information or facts relevant to the negotiation that the other party does not have (Cooke, 2005).

⁴ The term multilateral literally means many sided.

Stevens, 2005). Nevertheless, multilateral trade negotiations are usually much more complex than non-multilateral trade negotiations. The complexity echoes the great diversity of interests at risk, the numerous elements included in the multilateral trade negotiation process, and in most cases, voluminous trade-related issues under deliberation (Kolb & Faure, 1994). The outcome of multilateral trade negotiations must be acceptable to all parties. Hence, they are difficult to successfully conclude relative to non-multilateral trade negotiations (Dupont & Faure, 1991; WTO, 2002).

Given the complexities and difficulties in effectively concluding multilateral trade negotiations, bilateral trade negotiations have proliferated over the last decades. In fact, trade negotiations are arguably shifting from multilateral to bilateral platforms. For instance, large global trade participants such as the United States of America (USA), under the Trump administration, have openly revealed their willingness to embrace bilateral trade negotiations (United States Trade Representative [USTR, 2017]; Gertz, 2017; Maluck *et al.*, 2018).

Trade agreements, discussed in the following section, are an outcome of and formulated through trade negotiations.

1.1.2 International trade agreements

The swift escalation of global interdependence, in the post-1945 era, has enforced all nations, regardless of their prior beliefs or policies, to liberalise their trade strategies (Bergsten, 1996). The hypothetical case for free trade as a generator of economic growth has an ancestry that dates to the classical school of thought, which started with Adam Smith in the 18th century. The work of David Ricardo, Torrens, James Mill, and John Stuart Mill in the first part of the 19th century strengthened Adam Smith's view that free trade is favourable for economic growth (Richards, 2001). Since then, the validation for free trade and the various irrefutable benefits that export specialisation contributes to the productivity of countries have been extensively discussed and well documented in international trade literature (see Bhagwati, 1978; Krueger, 1978).

In order to achieve success in the global economy, countries must compete efficiently in foreign markets instead of merely competing effectively in the domestic market. This is true irrespective of how vast the home market is (Bergsten, 1996). In today's liberalised markets, free trade policies have generated a degree of competition that emboldens persistent efficiency and innovation. This has led to enhanced economic growth, better access to cheaper high-quality products, improved operational efficiency, economies of scale, and fair trade, all of which are benefits of free trade policies (Boudreaux & Ghei, 2017). In fact, countries that are open to international trade tend to

grow quicker, innovate, expand productivity and provide higher income as well as additional opportunities to their citizens (World Bank [WB], 2018a).

In pursuit of freer international trade, various nations have been engaging in trade negotiations and reciprocal trade agreements, even before the days of the General Agreement on Tariff and Trade (GATT) of 1947 (Dam, 2004; Grossman, 2016). In fact, the modern-day multilateral trading system, as we know it, can be seen as a multilateralisation of the system of reciprocal trade agreements that nations and regions were pursuing for several years prior to the 1947 GATT (Azevêdo, 2014). Consequently, securing and strengthening external trade relations through distinct trade agreements have facilitated the widening and deepening of international trade cooperation among trading nations (Dent, 2006). In view of this, agreements have been reached in novel policy areas such as trade in services, foreign investment, intellectual property, government procurement and E-Commerce (WTO, 2011a).

The main economic aim of trade agreements is to diminish trade barriers and liberalise trade and investment rules between two or more countries (Mayer & Zignago, 2005). Accordingly, to achieve gains from external trading initiatives, trading nations negotiate distinct trade agreements at multilateral, plurilateral, unilateral, regional and bilateral level (Schott, 2004).⁵ With the exception of unilateral trade agreements, which are non-reciprocal in nature, all the other types of trade agreements are reciprocal treaties, where the benefits are enjoyed by exporters and importers from all the parties to the agreement (WTO, 2017b). However, in the case of inclusive plurilateral trade agreements, non-members to the agreement also reap the benefits of the agreement (Adlung & Mamdouh, 2017).

In view of the WTO (2017a), the best possible outcome of trade negotiations is an MTA, which includes all 164 WTO Member States and territories. This emanates from the fact that such an agreement is binding to all the members of the WTO, which makes the scope of trade liberalisation all-inclusive (WTO, 2019a). Nonetheless, other non-MTAs offer alternative trade policy strategies to complement the multilateral trading system and fill the gap in cases where MTAs fail.

⁵ Definitions (WTO, 2017a):

- MTAs are non-discriminatory reciprocal trade agreements between all the WTO members;
- Plurilateral Trade Agreements (PluTAs), which can be inclusive or exclusive, are trade agreements negotiated within the framework of the WTO, involving three or more countries with a common interest, but not all WTO members;
- Unilateral trade agreements are non-reciprocal trade arrangements conferred on one country by another country or a regional bloc.
- Regional Trade Agreements (RTAs) are reciprocal trade agreements between two or more trading partners in the same geographical region; and
- BTAs are reciprocal trade agreements between two trading parties.

Furthermore, such trade arrangements promote greater trade among the signatories to the agreement (Nakatomi, 2013).

Regardless of the nature of the trade agreement, it is vital that the participants possess the capacity to be totally involved at each phase of its negotiation and to warrant tolerable enactment as well as execution of its requirements (African Development Bank [AfDB], 2016a). As alluded to in Section 1.1.1, trade negotiations follow a systematic manner or process. A discussion of the bilateral trade negotiation process, which consists of three phases (i.e. the preparation, negotiation, and conclusion phase) is provided in Section 1.1.3.

1.1.3 The bilateral trade negotiation process

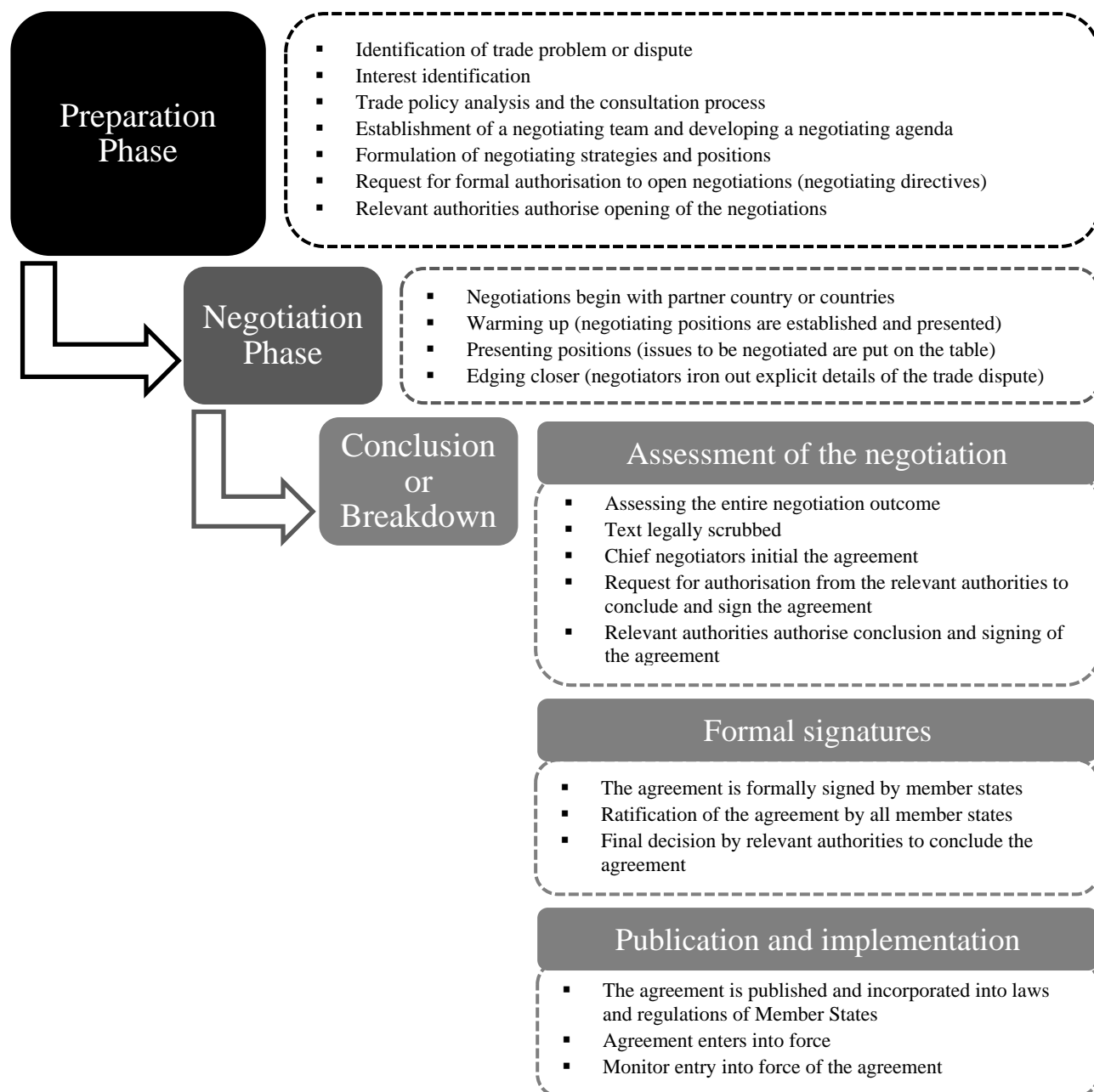
In recent years, countries progressively play a part in multilateral trade negotiations, while simultaneously concluding BTAs and/or Regional Trade Agreements (RTAs). Unlike multilateral trade negotiations, bilateral trade negotiations follow no established or internationally accepted procedure (Asian Development Bank [ADB], 2008). In fact, negotiations of bilateral nature differ from country to country or trading bloc to trading bloc. Research has shown that they may be deduced from past practices, protocol, or prior agreements entered into by the negotiating parties (European Commission [EC], 2013). Nevertheless, similar to multilateral trade negotiations, bilateral trade negotiations also follow a systematic manner or process in most cases. Although there is no one-size-fits all approach to trade negotiations, it is possible to isolate key elements that are required to generalise the bilateral trade negotiation processes (EC, 2013).

Figure 1.1 illustrates the general bilateral trade negotiation process. It is apparent that there are primarily three phases in the negotiation process. The preparation phase is the first phase in which the following steps, among others, are undertaken: identification of the trade problem or dispute; interest identification; consultation process; establishment of a negotiating team; developing a negotiating agenda; and formulation of negotiating strategies and positions (Bhattacharya, 2005; Saner, 2012; EC, 2013). The second phase is the negotiation phase where the actual negotiations take place between the parties (Bhattacharya, 2005; Saner, 2012; EC, 2013). The conclusion or breakdown phase is the last phase, which involves the assessment of the negotiations, formal signing of the agreement by both parties, and publication and implementation of the agreement (Bhattacharya, 2005; Saner, 2012; EC, 2013).

The distinct phases of the bilateral trade negotiation process require diverse negotiation tactics. Consequently, the negotiators should be well prepared as to how to deal with different phases of the negotiation process. In addition, a good negotiation outcome requires extensive analysis of:

commercial issues at stake for all sides; economic impact on the respective countries; trade-related domestic policy issues; laws and international rules that apply; and the views in addition to political influences of the stakeholders (Bhattacharya, 2005). Success depends upon the preparation of the negotiators as to the extent of understanding and analysis of the interest of stakeholders who should be positively or negatively affected by the trade agreement and how they proceed to achieve a fair deal (Saner, 2012).

Figure 1.1: Bilateral trade negotiation process



Source: Author's own figure based on (Bhattacharya, 2005; Saner, 2012; EC, 2013)

As part of the preparation phase of the trade negotiation process (see Figure 1.1), countries are required to conduct a thorough trade policy analysis before entering any trade negotiations. Yet, in this phase of the bilateral trade negotiation process, the evidence on product-level prioritisation methods, specifically designed to inform trade negotiations by taking both countries' core export competencies and the size, growth and consistency of the import demand into consideration, is silent. In fact, most of the trade policy analysis methods applied in the preparation phase of bilateral trade negotiations measure the macro-level impact of trade policy. Hence, negotiating parties tend to focus on as many products and sectors as possible in the negotiations, and may lose sight of their core export competencies and the size, growth and consistency of the import demand. This may pose a strain on the survival and sustainability of trade relationships evolving from such bilateral trade negotiations. Furthermore, the fairness of the trade deal as inspired by a win-win negotiation outcome might be adversely affected.

A fruitful trade negotiation outcome is governed, not only by reputable negotiating capabilities at the bargaining table, but also by correspondingly careful planning and preparation of negotiators positioned on meticulous research and analysis (Saner, 2012). However, some developing countries may face capacity constraints when it comes to trade policy analysis and negotiation.

1.1.4 Trade negotiation and trade policy analysis capacity constraints

A significant feature of the trade policy capacity position of many developing countries is the absence of human resources and establishments required to perform quantitative trade policy research and analysis (Page, 2002). Most developed countries, by contrast, enjoy competent trade policy analysis capacity, which considerably enriches their preparation and competence in trade negotiations (Organisation of Economic Co-operation and Development [OECD], 2003). This enables them to potentially navigate the agenda and dominate the negotiation process. For some developing countries, trade policy analysis capacity constraints may expose them to trade agreements where they had no meaningful effect in and contribution to the particular negotiations (Bilal, 2003).

In order to enhance the preparation and competence in trade negotiations, trade policy formulation must be generally inclusive as well as analytical. Consequently, countries ought to have a refined comprehension of the possible effects of the trade agreements that they contemplate to negotiate (EC, 2019a). In this regard, countries should possess the trade policy analysis capacities required to effectively monitor the potential and actual economic and social effects of trade-related policies and developments (Tussie, 2009). If the formulation of trade policy and negotiating positions has been characterised by inclusive consultations based on rigorous research and analysis, the outcome of the

trade negotiation is likely to be considered legitimate by stakeholders with vested interest in the negotiation (OECD, 2003). In addition, the agreement resulting from the trade negotiation is inclined to receive greater implementation support from the principal trade policy actors such as the government, business entities, communities and civil society organisations (UNCTAD, 2018a).

Even though quantitative analysis cannot provide all the answers to trade policy questions, it can assist in directing the trade policy formulation process and to safeguard that preferences are based on detailed awareness of underlying realities (UNCTAD & WTO, 2012). Therefore, successful participation of developing countries in the negotiations and implementation of trade agreements is dependent on the long-term enhancement of their trade negotiation and trade policy analysis capacity (Bilal, 2003).

1.2 Problem statement

Most trade policy analysis methods applied in the preparation phase of the bilateral trade negotiation process measure the macro-level impact of trade policy (UNCTAD & WTO, 2012; Krist, 2013). However, the evidence on product-level prioritisation methods for bilateral trade negotiations, specifically designed to inform trade negotiations by taking both countries' core export competences and the size, growth and consistency of the import demand into consideration, is silent (see for example, the World Bank Institute [WBI], 2004; Bhattacharya, 2005; the United Nations Institute for Training and Research [UNITAR], 2010; Saner, 2012; and the EC, 2013).

Given that some developing countries may face trade policy analysis capacity constraints to better prepare for trade negotiations, negotiating parties often tend to focus on as many products and sectors as possible in the negotiations, and may lose sight of their core export competencies and the size, growth and consistency of the import demand. This may inevitably mean that the fairness, inclusivity, implementation support and eventually the survival of trade relations resulting from such negotiations can be adversely affected (Fugazza & Nicita, 2011). Hence, this study contributes to trade negotiation literature by proposing a product-level prioritisation method to specifically address the need for careful planning and preparation of negotiators, positioned on meticulous research and analysis, in the preparation phase of bilateral trade negotiations (Saner, 2012).

Although quantitative analysis cannot provide all the answers to trade policy questions, it can assist in navigating the trade policy formulation process and to safeguard that preferences are grounded on thorough awareness of underlying realities (UNCTAD & WTO, 2012). Combined with inclusive consultations, the development of a product level prioritisation method, specifically designed to inform bilateral trade negotiations, is likely to contribute to inclusive trade agreements with greater implementation support.

The prioritisation method proposed in this study is specifically applied in the case of the Southern African Customs Union (SACU)⁶ and the USA's bilateral trade relationship under the African Growth and Opportunity Act (AGOA). This follows a lot of uncertainty presently surrounding the renewal of AGOA after its expiry in 2025 (Donaldson, 2017).

1.3 Motivation for application: SACU-USA trade negotiations and AGOA

Since the formation of WTO in 1995, multilateralism has been the dominant approach to liberalise trade. Given the difficulties facing the WTO, and the complexity of the multilateral trade negotiations, many countries have entered a new era, moving towards bilateralism driven by market access, foreign policy, fairness, environmental, and social concerns (Maluck *et al.*, 2018; Heydon & Woolcock, 2009). In this regard, the USA is no exception. For instance, in the President's Trade Policy Agenda in 2017, the Trump administration announced a major review of the USA's approach towards trade agreements and the negotiation thereof (USTR, 2017). The administration indicated that the USA's economic growth and development objectives could be best achieved by concentrating on bilateral instead of multilateral negotiations (USTR, 2017). While expressing its belief in free and fair trade, the Trump administration clearly stated that it would tend to focus on bilateral negotiations, holding USA's trading partners to higher standards of fairness (USTR, 2017).

However, the growing trend towards bilateralism and inward focused trade policies, especially in the USA, currently substantiates the possibility that AGOA may not be renewed after it expires in 2025. This presents challenges of trade policy uncertainty to AGOA beneficiary countries and more particularly to the USA's traditional trading partners such as SACU Member States. This emanates from the fact that, to be pro-active, such trading partners may have to engage the USA in bilateral trade negotiations in preparation for their post-AGOA trade relationship with the USA.

Over the past one and a half decades, SACU Member States and many other Sub-Saharan Africa (SSA) AGOA beneficiary countries have accessed the USA market primarily through AGOA. The uncertainty surrounding the renewal of AGOA, after its expiry in 2025, means that the post-AGOA trade relationship between SACU and the USA remains undefined. However, a number of options can be considered by SACU in preparation for its post-AGOA relationship with the USA if AGOA is not renewed. In this regard, this study highlights the following two options: Option A, permitting AGOA to expire without making any alternative trade arrangements with the USA; and Option B, re-engaging the USA in negotiations of a BTA (Prinsloo & Ncube, 2016).

Considering the importance of exports in SACU countries' economic growth prospects and the

⁶ SACU Member States (SACU, 2002): Botswana; Eswatini; Lesotho; Namibia and South Africa.

significance of the USA market in their export accomplishments, freer trade with the USA opens up benefits for both SACU and USA exporters and importers. Hence, this substantiates the need for SACU to lock-in AGOA benefits by negotiating a reciprocal trade agreement with the USA, which builds on AGOA by strengthening trade and investment relations, while addressing AGOA drawbacks and taking reciprocity into account (Prinsloo & Ncube, 2016).

In fact, between 2003 and 2007, SACU and the USA attempted to negotiate a Free Trade Agreement (FTA), but the talks collapsed (Lehloenya, 2009). While there were many contested issues that led to the collapse of the negotiations, the scope of the trade agreement, USA's farm subsidies, and capacity constraints as well as the diversity and deficiency of coherence in trade and investment policy within SACU, were contemplated as the prime impediments (Brown *et al.*, 2006; United States Government [USG], 2006). However, the global as well as domestic political and economic environment has significantly transformed in the previous decade.

Even though the inclination towards bilateralism is growing, in the preparation phase of the bilateral trade negotiation process, the evidence on product-level prioritisation methods, specifically designed to inform trade negotiations by taking both countries' core export competences and the size, growth and consistency of the import demand into consideration, is silent. The importance of such prioritisation methods rests upon their capability to account for the negotiating countries' core export competences and the size, growth and consistency of the import demand. With the increasing significance of the notion of fair trade deals, this partially promises a trade agreement acceptable to both parties.

Negotiating parties commonly focus on as many products and sectors as possible in bilateral trade negotiations. Hence, product-level prioritisation is crucial, not only in addressing the capacity constraints that some developing countries may exhibit, but also in providing the benefits associated with a rigorous quantitative trade policy analysis. This is especially important, in the preparation phase of the bilateral trade negotiation process, as it can contribute to inclusive trade agreements characterised by greater implementation support.

The product-level prioritisation method developed in this study is applied in the case of SACU and the USA to identify products and sectors that should be prioritised in the negotiation of the potential SACU-USA reciprocal trade agreement.

1.4 Research questions

The questions that this study seeks to answer are divided into overall and secondary research questions:

1.4.1 Overall research question

- How can a product-level prioritisation method, which specifically considers both countries' core export competencies and the size, growth and consistency of the import demand, inform bilateral trade negotiations in the preparation phase of the trade negotiation process?

1.4.2 Secondary research questions

- Which products and sectors should SACU and the USA policymakers prioritise when negotiating the potential SACU-USA reciprocal trade agreement?
- What are the possible welfare, macroeconomic and sectoral effects of an increase in USA tariffs on SACU, if AGOA is not renewed and USA tariffs applied on SACU revert to the WTO's Most Favoured Nation (MFN) levels?
- What are the possible welfare, macroeconomic and sectoral effects of the potential SACU-USA reciprocal trade agreement under which the USA and SACU fully eliminate all import taxes and export subsidies to their bilateral trade?
- What sustainable export opportunities exist for SACU in the USA and for the USA in SACU, over a five-year period from 2013 to 2017?

1.5 Research objectives

The objectives of this study are divided into overall and secondary objectives.

1.5.1 Overall objective

- Contributing to the trade negotiation literature by developing a product-level prioritisation method, which specifically considers both countries' core export competencies and the size, growth and consistency of the import demand, to inform bilateral trade negotiations.

1.5.2 Secondary objectives

- Providing a theoretical framework of this study and discussing the economics of free trade and the international political economy, trade negotiations, trade negotiation and trade policy analysis capacity constraints, trade agreements, and market access as highlighted in international trade literature.
- Providing an overview of SACU-USA trade relations as well as the trade policy of both SACU and the USA.

- Assessing the possible welfare, macroeconomic and sectoral effects of an increase in USA tariffs applied on SACU, if AGOA is not renewed, *versus* a potential fully liberalised SACU-USA reciprocal trade agreement.
- Applying the product-level prioritisation method developed in this study (as outlined in Section 1.6.2) to identify priority products and sectors to inform the potential SACU-USA bilateral trade negotiations.
- Offer recommendations to SACU Member States and USA policymakers as to which products and sectors they should focus their attention on in the potential SACU-USA trade negotiations.

1.6 Research method and design

The research method consists of a literature study and an empirical study.

1.6.1 Literature study

In the literature study, a theoretical framework of this study is provided, and the literature relating to free trade and the international political economy, trade negotiations, trade capacity constraints, trade agreements, and market access is discussed as highlighted in international trade literature. In addition, an overview of SACU-USA trade relations and the trade policy of both SACU and the USA is expounded.

1.6.2 Empirical study

The empirical study consists of the following steps (see Section 4.2):

- Step 1.1: A Global Trade Analysis Project (GTAP) analysis of the expected welfare, macroeconomic and sectoral effects of a trade protection policy reform in which USA's tariffs applied on SACU revert to the WTO's MFN levels if AGOA is not renewed.
- Step 1.2: A GTAP analysis of the expected welfare, macroeconomic and sectoral effects of a full trade liberalisation policy reform in which the USA and SACU fully eliminate all import taxes and export subsidies to their bilateral trade.
- Step 2.1: On the import demand side, identifying consistently large and/or growing import demand in the USA and in SACU for all products, over a five-year period from 2013 to 2017. This step follows Cuyvers *et al.* (1995:179) and Cuyvers (1997:6; 2004:260) in determining markets with large and/or growing import demand.⁷

⁷ Import data at HS6-digit level from 2008 to 2017 is available on the United Nations Commodity Trade Statistics Database (UN COMTRADE): <http://comtrade.un.org/data/>.

- Step 2.2: On the export supply side, identifying the products that SACU and the USA consistently export competitively (sustainable exports). In this step, SACU and the USA's Revealed Trade Advantage (RTA) of Vollrath (1991), over a five-year period from 2013 to 2017, is used as a proxy for international product-level export competitiveness (Steenkamp *et al.*, 2015).
- Step 3: Matching products with consistently large and/or growing import demand in the USA market to SACU's consistently competitive export supply products and *vice-versa*.
- Step 4.1: The degree of market concentration in the USA and SACU is assessed. This step follows Cuyvers *et al.* (1995:180) and Cuyvers (1997:7; 2004:261) in measuring the degree of import market concentration. The Herfindahl-Hirshmann Index (HHI) of Hirshmann (1964) is used in this step to measure the degree of market concentration in SACU and the USA.
- Step 4.2: The degree of SACU's tariff-wise market access in the USA and USA's tariff-wise market access in SACU is assessed. The Market Attractiveness Index (MAI) of the ITC (2008) will be used in this step to measure the degree of tariff-wise market access of SACU and the USA in each other's market.

1.7 Research contribution

The contribution of this study is divided into literature and policy contribution.

1.7.1 Literature contribution

Multilateralism has been the dominant approach to liberalise trade since the inception of the WTO in 1995. However, an increasing tendency towards bilateralism has been witnessed in recent years. Even though the inclination towards bilateralism is growing, in the preparation phase of the bilateral trade negotiation process, the evidence on product-level prioritisation methods, specifically designed to inform trade negotiations by taking both countries' core export competences and the size, growth and consistency of the import demand into consideration, is silent.

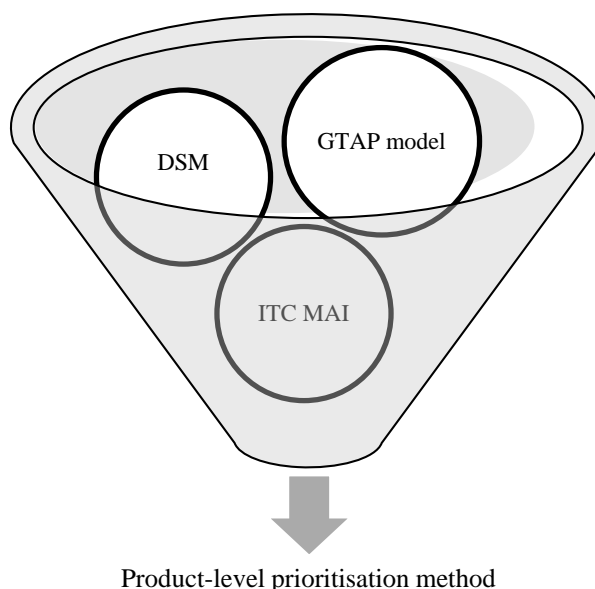
Most of the trade policy analysis methods applied in the preparation phase of bilateral trade negotiations are of a macro-nature (e.g. the GTAP model). Therefore, negotiating parties often tend to focus on as many products and sectors as possible in the negotiations, without taking their core export competencies and the size, growth and consistency of the import demand into consideration. Moreover, some developing countries may face capacity constraints in terms of trade policy analysis and negotiation, as a consequence of inadequate resources, insufficient analytical capacity and lack of expertise (see Section 2.5). It is in occupying this gap that this study contributes to trade

negotiation literature by developing a product-level prioritisation method that specifically takes both countries' core export competences and the size, growth and consistency of the import demand into consideration.

As mentioned in Section 1.2, product-level prioritisation is essential, not only in confronting the trade policy analysis and negotiating capacity constraints faced by some developing countries, but also in providing the benefits associated with a rigorous quantitative trade policy analysis. This is particularly significant, in the preparation phase of the bilateral trade negotiation process, as it can contribute to inclusive trade agreements characterised by enhanced implementation support. The product-level prioritisation method developed in this study combines selected parts of three research methodologies, namely the GTAP model of Hertel (1997), the Decision Support Model (DSM) of Cuyvers *et al.* (1995) and Cuyvers and Viviers (2012), and the MAI of the ITC (2008).

A diagrammatic representation of the research methodologies, drawn into the product-level prioritisation method developed and utilised in this study, is provided in Figure 1.2. A GTAP analysis is applied in: Step 1.1 (see Section 4.2.1), to analyse the possible welfare, macroeconomic and sectoral effects of an increase in negotiating parties' tariffs applied on each of the parties; and in Step 1.2 (see Section 4.2.2), to analyse the expected welfare, macroeconomic and sectoral effects of the extreme alternative, namely, a potential fully liberalised trade policy reform. The purpose of the GTAP analysis in Step 1 is to give a macro-level context to the implications of AGOA expiring with no alternative SACU-USA reciprocal trade agreement in place *versus* a potential fully liberalised reciprocal trade agreement between SACU and the USA.

Figure 1.2: Research methodologies drawn into the product-level prioritisation method



Source: Author's own figure

Filter 2 of the DSM is applied in Step 2.1 (see Section 4.2.3) to identify products with consistently large and/or growing import demand in negotiating parties' markets, and in Step 2.2 (see Section 4.2.4) to identify products that the negotiating parties' can consistently export competitively. Filter 3.1 of the DSM is applied in Step 4.1 (see Section 4.2.6) to assess the negotiating parties' degree of market concentration. The tariff and tariff advantage analysis within the MAI of the ITC (2008) is applied in Step 4.2 (see Section 4.2.7) to assess the negotiating parties' degree of tariff-wise market access in each other's market.

1.7.2 Policy contribution

The product-level prioritisation method, developed in this study and suggested for implementation into the preparation phase of the bilateral trade negotiation process, is applied in the case of SACU and the USA within the context of the lingering uncertainty surrounding the renewal of AGOA after it expires in 2025. In addition to enhancing the fairness of the trade deal by considering negotiating parties' core export competencies and the size, growth and consistency of the import demand, product-level prioritisation is extremely important, particularly in the context of SACU countries that may lack trade policy analysis capacity to better prepare for trade negotiations (USG, 2006; Braude & Sekolokwane, 2008).

As already mentioned, considering the importance of exports in the economic growth and development prospects of SACU Member States, it is crucial that SACU countries gain from the potential trade deal. Hence, it is in providing recommendations to SACU Member States and USA policymakers as to which products and sectors they should prioritise when negotiating the potential SACU-USA reciprocal trade agreement, that this study informs the probable future trade policy direction of both parties.

1.8 Division and summary of chapters

An introduction of this study is provided in this chapter and consists of a background, problem statement, motivation, research questions, research objectives, research method and design, research contribution, and a division as well as a summary of chapters in this study. In Chapter 2, the theoretical basis of this study is established by providing a theoretical framework and a review of literature relating to: free trade and the international political economy; trade negotiations; trade negotiation and trade policy capacity constraints; trade agreements; and market access. Chapter 3 provides an overview of SACU-USA trade relations as well as the trade policy of both SACU and the USA.

A detailed description of the data and the research method applied in this study to identify products and sectors that SACU and the USA should prioritise in the negotiation of the potential SACU-USA trade negotiations is provided in Chapter 4. The empirical results of the GTAP analysis is provided in Chapter 5. Likewise, the empirical results of the priority products and sectors identified to inform the potential SACU-USA trade negotiations are presented and analysed in Chapter 6. The study is concluded in Chapter 7 with a summary and conclusions as well as recommendations to SACU Member States and USA policymakers. Limitations encountered in this study and recommendations for future research are also provided in Chapter 7.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

International trade has increasingly become an important part of almost all the nations around the globe and has been utilised as a significant mechanism for economic modernisation (McDonald, 2017). Engaging in international trade does not merely lead directly to economic growth, but also leads to advancements in the level of efficiency and to promotion of entrepreneurial initiatives aimed towards development of new products and services (UKTI, 2013). Hence, advocates of free trade perceive international trade as a central engine of economic growth and development (Abou-Stait, 2005). In fact, international trade is seen as the long-term and short-term foundation of economic growth and development in some of the East Asian nations such as China (Li *et al.*, 2010). Therefore, promoting freer international trade is favourable to stimulating economic growth as well as the expansion of an open economy (Bhagwati, 1978; Krueger, 1978).

As alluded to in Section 1.1.2, in pursuit of freer international trade, various nations have been engaging in trade negotiations and pursuing reciprocal trade agreements even before the days of the 1947 GATT (Dam, 2004). According to Azevêdo (2014), the contemporary multilateral trading system, as we know it, can be seen as a multilateralisation of the system of reciprocal trade agreements that nations and regions had been pursuing for several years prior to the 1947 GATT. Nevertheless, since the 1947 GATT, countries have engaged in extensive trade liberalisation⁸ that has led to a decline in the average global MFN applied tariffs from 40% in 1947 to approximately less than 10% at present (WB, 1987; Cimino-Isaacs, 2018). This is despite some writers such as Bown and Irwin (2016:18) finding that the average tariff among the key GATT participants (i.e. the USA, Japan and Western Europe) was about 22%, which is significantly lower than the often reported 40% figure, at the time of the first Geneva conference.

Despite the numerous recognisable benefits associated with multilateralism, the notion has been frequently threatened by rising bilateralism. For several years, multilateralism has been the dominant approach to trade liberalisation, but bilateralism has been growing in recent years (UNCTAD, 2017). As mentioned in Chapter 1, this may be partially attributable to the frustration with the multilateral process (Lester, 2016). For this reason, some countries such as the USA have openly conveyed their support for BTAs (Maluck *et al.*, 2018). Nevertheless, as already mentioned in Section 1.3, even though the inclination towards bilateralism is growing, in the preparation phase

⁸ Under the guidance of the WTO since its inception in 1995. The WTO now covers 98% of global trade and liberalisation rounds under its auspices have supported a major expansion of trade, with the average MFN applied tariff of WTO Member States declining from 25% in 1994 to less than 10% at the moment (Cimino-Isaacs, 2018).

of the bilateral trade negotiation process, the evidence on product-level prioritisation methods, specifically designed to inform trade negotiations by considering both countries' core export competences and the size, growth and consistency of the import demand, is silent.

The aim of this chapter is to establish the theoretical basis of this study by providing a theoretical framework and a review of literature relating to: free trade and the international political economy; trade negotiations; trade negotiation and trade policy capacity constraints; trade agreements; and market access. In this regard, a theoretical framework of this study, consisting of international trade and negotiation theories, is provided in Section 2.2. In Sections 2.3 to 2.7, literature relating to this study is reviewed, and a summary of this chapter is provided in Section 2.8.

2.2 Theoretical framework

Even though economic activities have characterised human culture since the genesis of civilisation, there was little formal analysis of international trade activities until the development of merchant capitalism in Western Europe during the 15th century (Landreth & Colander, 1989). This saw the rise of Mercantilists, Physiocrats, and Classical economists, among others, and led to the development of classical international trade theories, which positioned the foundation of free trade as we know it today.

Traits of protectionist tendencies disputably find their routes in the theory of mercantilism, which supports inward looking trade policies (Maneschi, 2007). The theory of mercantilism advocated for trade in which exports were favoured relative to imports (Trebilcock & Howse, 2005). It was centred on the principle that, for a nation to accumulate more wealth and power, it had to export more than it imports (Krugman, 1996).⁹ On the contrary, the theories of absolute and comparative advantage advocate for free trade policies that promote trade liberalisation through negotiation of trade agreements of various forms. The theories reveal that countries can indeed achieve economic growth and development gains from production specialisation and trading freely with each other (Smith, 1776; Ricardo, 1817).

Both absolute and comparative advantage theories are classical international trade theories centred on the concept of *laissez-faire* (Morgan & Katsikeas, 1997). However, in classical trade theories, production factors are confined within domestic frontiers. In other words, only absolute commodities can be traded (Leamer, 1995). In contrast, the Heckscher-Ohlin theory, developed by

⁹ "The ordinary means therefore to increase our wealth and treasure is by foreign trade, wherein we must ever observe this rule, to sell more to strangers yearly than we consume of theirs in value. By this order duly kept in our trading, that part of our stock, which is not returned to us in wares must necessarily be brought home in treasure." (Mun, 1630s).

Bertil Ohlin (1933) from earlier work of his teacher Eli Heckscher (1919), reveals that universal trade in commodities may possibly lessen the variation in comparative factor endowments between countries (Davis, 1995). This occurs indirectly when countries specialise in exporting those commodities that intensively utilises the production factors in comparative abundance (Zhang, 2008).

It is widely accepted that from the time of the classical economic writings, such as Smith (1776) and Ricardo (1817), to the commencement of the GATT in 1947, economic theory of international trade transformed relatively sluggishly (Beshkar & Bond, 2017). Conversely, there have been numerous substantial adjustments to the conventional international trade economic theory since the launch of the GATT in 1947 (Anderson, 2016). These adjustments profoundly update the elementary theory of international trade to signify the new industrial and commercial realities (Sen, 2010). For instance, during the era of the likes of Smith, Ricardo, and Heckscher-Ohlin, businesses were small in general and most of the international trade activities consisted of mineral and/or agricultural products produced by small-scale manufacturers (Krist, 2013). However, by 1947, large-scale manufacturing had advanced, and much of international trade was in manufactured products.

During the late 1970s and early 1980s, Paul Krugman observed that the majority of international trade was frequent between advanced countries that possessed comparable production factors (Krugman, 1979). The Heckscher-Ohlin model certainly did not justify this international trade pattern (Maskus, 1985; Amity, 1999). For this reason, Krugman (1979) developed the new trade theory, which is centred on economies of scale and product differentiation. Therefore, under international trade established on economies of scale and product differentiation, several countries may produce the same product broadly defined and trade parts and differentiated products with one another (Beshkar & Bond, 2017).

Nevertheless, the direct message conveyed by classical international trade theories, except the theory of mercantilism, is that it is beneficial for countries to specialise in producing those products in which they possess core competencies and trade freely with each other. In that manner, all countries achieve gains of free trade. However, to achieve most of the gains of free trade, trade agreements ought to be in place between the trading nations.

While trade liberalisation has partially been an outcome of countries unilaterally reducing their tariffs, much of trade liberalisation following the World War II (WWII) has been an outcome of trade agreements, which are achievable through trade negotiations (Krist, 2013). Hence, theories

that form the theoretical foundations of trade agreements and trade negotiations are discussed in the following sections.

2.2.1 Trade agreements theories

The literature on the theory of trade agreements has approached the question of why countries negotiate and sign trade agreements through the application of insights from the theory of contracts (Beshkar, 2010). In terms of this theory, an important first step in approaching the question is to model the preferences of countries over foreign trade policies, and to clarify how these preferences set in motion the necessity for trade agreements to liberalise trade (Schmidt, 2017). The theory also deliberates on the framework of trade agreements as in: the manner in which the trade agreement is to be administered; how disagreements between countries are to be resolved; and how flexibilities can be incorporated into the trade agreement to permit amendments in its terms when confronted with unexpected modifications in the economic situation (Beshkar & Bond, 2017). Besides the contract theory, other direct theoretical approaches as to why countries negotiate and sign trade agreements exist (Grossman & Horn, 2012). Two theoretical approaches to the question are discussed in this section.

2.2.1.1 *Terms of Trade (TOT) externality theory*

TOT externalities¹⁰ can give rise to the motive for negotiating and signing trade agreements (Grossman, 2016). This can be explained through considering a unilateral choice of tariffs in a two-country model. Following Beshkar and Bond (2017:6-9), the home country preferences can be represented by a utility function:

$$U(\alpha, \alpha^*) \tag{2.1}$$

Where:

α is the home country import tariff rate; and

α^* is the foreign import tariff rate.

The home country's optimal unilateral trade policy¹¹ is attained by selecting α to maximise its welfare, which will yield:

$$U_{\alpha}(\alpha, \alpha^*) = 0 \tag{2.2}$$

¹⁰ The desire to influence global prices in favour of the home economy by diminishing the relative price of imported bundles (Cagnolmi *et al.*, 2014).

¹¹ Trade policy adopted by the home country in isolation (i.e. without regard to other countries).

The optimum tariff trades off the political and TOT welfares of increasing the tariff against the deadweight loss originating from excessive production of import-competing products.

Correspondingly, the foreign country will select α^* to maximise its welfare:

$$U^*(\alpha, \alpha^*) \tag{2.3}$$

which yields:

$$U_{\alpha^*}^*(\alpha^*, \alpha) = 0 \tag{2.4}$$

The Nash equilibrium outcome with unilateral policies occurs at the tariff pair $\{\alpha^N, \alpha^{*N}\}$ at which both home and foreign country unilateral policy conditions are satisfied.

A negative externality arises from the foreign country's tariff if:

$$U_{\alpha}(\alpha, \alpha^*) < 0 \tag{2.5}$$

and

$$U_{\alpha^*}^*(\alpha^*, \alpha) < 0 \tag{2.6}$$

One origin of such negative externality is the foreign country's tariff impact on the TOT, given that an escalation in the foreign country's tariffs will subsequently diminish the demand for domestic exports, which deteriorate the TOT of the home country (Beshkar & Bond, 2017). Nevertheless, other channels through which a country's tariff adversely affects its trading allies exist. For instance, Venables (1987) reveals that the repositioning of production among nations that transpires when industries are characterised by ideals of monopolistic competition, can generate negative externalities.

The presence of negative externalities from unilateral trade policies entails that the Nash equilibrium involving unilateral trade policy will be inefficient (WTO, 2009; Grossman & Horn, 2012). This provides a motivation for countries to negotiate and sign trade agreements (Ganelli & Tervala, 2015). The fact that a simultaneous reduction in tariff rates can make each country better-off explains the inefficiency of the Nash equilibrium (Bagwell & Staiger, 1999). However, neither the home nor the foreign country has a unilateral motivation to reduce its tariff rate, since the individual tariff rate is at an optimum (Beshkar & Bond, 2017). Hence, a trade agreement or some

cooperation in one form or the other is required to enhance the welfare of both countries (Grafe & Mauleon, 2000; Grossman, 2016).

According to Bhagwati (2002), one of the key principles of the GATT, the reciprocity principle, in which WTO members make mutually beneficial tariff concessions, is harmonious with the notion that trade agreements are envisioned to correct a negative externality. A reduction in tariffs by the partner countries, which does not affect global prices will improve the welfare of both countries, as long as the negative externality is exclusively attributable to the TOT effect (Bagwell & Staiger, 2016). The fact that the TOT remains unaffected means that neither of the partner countries suffers a TOT loss from the tariff declines (Nicita *et al.*, 2014).

The TOT externality theory has been the supreme documented approach to explaining trade agreements, both theoretically and empirically (Maggi, 2014). According to the TOT theory, the purpose of trade agreements is to eliminate the TOT externality (Gawande & Jo, 2014). This leads to the expectation that trade agreements ought to eliminate the component of the tariff rate that is emanating from the market power effect (i.e. $1/w$ in the equation in Footnote 11), while the political economy component is left in place (Beshkar & Bond, 2017).¹² Therefore, tariff reductions must be higher in industries where market power is dominant (Bagwell & Staiger, 2016).

2.2.1.2 *Commitment theory*

The TOT externality theory, discussed in the previous section, argues that political concerns, in isolation, do not generate a motive for countries to negotiate and sign trade agreements (Maggi, 2014). This emanates from the fact that there is no spill over of trade protectionism to trading partners unless there is an effect of the trading partner's TOT (Beshkar & Bond, 2017). Nevertheless, scholars such as Maggi and Rodriguez-Clare (1998; 2007) argue that a trade agreement can assist as a commitment instrument that ineffective administrations can utilise to diminish domestic protectionist pressure from domestic producers. Their argument is grounded on the capability of policymakers to commit to diminish tariffs (Beshkar & Bond, 2017). If policymakers enjoy inferior bargaining power in relation to protectionist interests, domestic producers will not consider threats of trade liberalisation completely (Schmitz, 1988). In fact, in the

¹² Letting α be an ad valorem tariff rate for an import-competing industry, the optimal tariff with political pressure can be expressed as (Beshkar & Bond, 2017:4):

$$\alpha = \frac{\beta(1+\alpha)}{z} + \frac{1}{w}$$

Where: β is the political pressure in the sector; z is the product of import penetration ratio and the domestic import demand elasticity; and w is the elasticity of export supply to the country.

The first term in the equation captures the political motive for protection, while the second captures the TOT benefit.

absence of a trade agreement, the confidence of the ability to continue to bargain for safeguarding of their investments in future enables domestic producers to continue investing in comparatively unproductive industries (Maggi & Rodriguez-Clare, 2007).

Through negotiating and signing a trade agreement, weak administrations may utilise the commitments to the foreign country under the trade agreement as a basis for resisting protectionists' pressure from domestic producers (WTO, 2009). This tactic is in agreement with unsubstantiated evidence suggesting that one of the central objectives of Mexican negotiators in negotiating and signing the North America Free Trade Area (NAFTA) was to strengthen domestic trade policy reforms and defend trade liberalisation from domestic producers' protectionist coercion (Beshkar & Bond, 2017). Obviously, this is in addition to other primary objectives such as facilitating trade, expanding investments, and improving the international competitiveness of Mexican firms (Winham, 1994).

The commitment theory can also be utilised to explain gradual tariff declines (Maggi & Rodriguez-Clare, 2007). Trade agreements characteristically stipulate phase-in periods, normally of five to ten years, over which tariffs are lessened from the preliminary rates to the negotiated rates (Brusick *et al.*, 2005). According to the commitment theory, erosion of the sector-exclusive trade protection interests, as production factors leave the import-competing industry, lessens the political coercion for trade protection, which consequently permits additional reductions in tariffs (Limão & Tovar, 2011).

In the commitment theory, trade liberalisation transpires because the existence of the foreign government directly stimulates the collaborations between the domestic government and domestic special interest groups in diminishing domestic tariffs (Maggi & Rodriguez-Clare, 1998; 2007). In contrast, in the TOT theory, trade liberalisation transpires because the negotiation of the trade agreement introduces an additional participant to the negotiating table, that has a vested interest in diminishing the domestic tariffs (Gawande & Jo, 2014; Beshkar & Bond, 2017).

As already mentioned, for free trade to occur, countries have to initially institute trade agreements through trade negotiations. These negotiations may be on a multilateral, plurilateral, unilateral, regional and bilateral basis. Hence, negotiation theories, namely game theory and linkage theory, are discussed in Section 2.2.2.

2.2.2 Negotiation theories

In recent years, irrespective of size, economic muscle, geographical position, social structure, and other related factors, all nations are obliged to play a part in the global economy in one way or the

other (Fisher, 1999). This is an expected outcome of the universal economic inter-reliance amongst all nations (Alexa & Toma, 2012). Hence, acknowledging that no nation can live in isolation has made trade policy-making a matter of domestic, regional and global importance. With the intention of ensuring sustainability of strategic trade policies, trade negotiation has become a fundamental constituent of domestic policy-making procedures (Alfredson & Cungu, 2008). To place trade negotiations within theoretical context, two well-known negotiation theories (i.e. the game theory and linkage theory) are discussed in this section.

2.2.2.1 *Game theory*

Game theory is the study of mathematical models of human conflict and collaboration within a competitive setting (Myerson, 2013). In other words, it is the art of strategy, or at least the optimum decision-making of autonomous and rival participants in a strategic situation (Straffin, 1993). The chief developers of the modern game theory were mathematicians John von Neumann and John Nash, as well as economist Oskar Morgenstern (Von Neumann & Morgenstern, 2007). Game theory consists of the following four fundamental game models: static game with complete information; static game with incomplete information; dynamic game with complete information; and dynamic game with incomplete information (Hao & Ji, 2012).

On global level, governments of trading countries find themselves in circumstances similar to the dual-player game theory setting well-known as the Prisoner's Dilemma (PD) (Abbott, 1985). In the PD, each participant acts to advance his self-interest. Therefore, each participant pursues his core strategy, that is, the direction of play that assures him a greater reward regardless of what the other participant does (Dawes *et al.*, 1977). The PD is an oligopoly game in which the decisions undertaken by an individual participant affect the reward of the other participant (Holt & Capra, 2000). However, if each participant follows his core strategy, the consequence is a symmetric outcome in which each participant is worse-off than if each had pursued the alternate strategy (Roth & Murnighan, 1978).

The PD explained above is applicable to trading countries although the circumstances of trading countries' governments are additionally multifaceted than the pure PD example (Abbott, 1985). Assuming, for simplicity, a world consisting of two countries trading together. Each participant can be viewed as comprising both a country and the government that represents the country (Rosendorff & Milner, 2001). However, the interests of these two entities may conflict, that is, what is a core strategy for the government may not be in line with the long-run interests of the country (Myerson, 2013).

With global economic inter-connectedness, protectionist measures create hostile effects outside the country imposing them (Sykes, 1999). In other words, protectionist measures imposed by one government will be inclined to both damage the economy of the other country and generate political costs for the country's government (Rodrik, 1998). If both governments decide to implement protection measures, the unfavourable effects for the two countries, if not the two governments, will expand (Kee *et al.*, 2013). This situation may be frequent and the negative outcome of protectionism may develop even more austere if each government decides to retaliate in contrast to the actions of the other (Abbott, 1985).

However, if countries choose to engage in trade negotiations (i.e. bilateral, regional and/or multilateral) aimed at liberalising trade, they can evade the reciprocally destructive inclinations of protectionism (Milner, 1989; Makki *et al.*, 1994). In a state of inter-dependence, governments can diminish the short-term political costs attributable to protectionism (Rodrik, 1998). Thus, trade negotiations at bilateral and/or multilateral scale deter governments from pursuing what seem to be sensible short-term strategies, in the interest of accomplishing supreme long-term outcomes for their countries and possibly themselves (Abbott, 1985).

The approach in which the game theory informs economic policy-making has extensive implications in the field of trade negotiations (Harrison & Rutström, 1991; McGrath, 2003). However, current trade negotiations are also influenced by the previous trade negotiations undertaken by the negotiating parties (Crump, 2005). In other words, current trade negotiations are linked to the past trade negotiations performed by the negotiating parties. It is in this regard that the linkage theory is discussed in the following section.

2.2.2.2 *Linkage theory*

The linkage theory serves as a framework for comprehending the trade negotiation process at a more fundamental level (Olekalns & Adair, 2013). In fact, Pruitt (1994) acknowledge that the hypothetical paradigm that governs negotiation research lacks a time constituent. Hence, it consequently fails to contend with proceedings that take place prior to and after a negotiation. It is most likely that the notion of linking a single negotiation to another has transpired, given that parties have been engaging in negotiations (Frankel, 1972; Crump, 2005). Negotiation linkage is defined as the manner in which a single negotiation influences or governs the procedure and/or outcome of a separate negotiation (Crump, 2010). Such linkage exists in circumstances where a network of participants repeatedly negotiates over comparable issues (Mouzas, 2016).

According to Olekalns and Adair (2013), a distinct negotiation can be seen as engrained in a pattern of negotiations. In trade negotiations, various linkages take place at bilateral, regional and multilateral level. In fact, multilateral trade negotiations can be superordinate to trade negotiations conducted at bilateral or regional level (Crump, 2011). For instance, trade negotiations between Mercosur¹³ and the European Union (EU) gained momentum in 2000 to 2001, but slowed down following a fruitful Doha Ministerial Conference (MC)¹⁴ in 2001 (Doctor, 2007). Furthermore, an impulse to conclude Mercosur-EU trade negotiations followed the disenchantment of the 2003 WTO Cancun MC (Kurtz, 2004). For some countries, bilateral and/or regional trade negotiations serve as an alternative to the WTO multilateral process (Virág-Neumann, 2009). Accordingly, when multilateral trade negotiations flop, it is more likely that certain stagnant bilateral and/or regional trade negotiations resume (Mansfield & Reinhardt, 2003).

This study is theoretically grounded on a combination of both trade agreements and trade negotiation theories. The combination of the two strands of theories explains the reasons why countries negotiate and sign trade agreements. From trade agreements theory perspective, the motive of negotiating and signing trade agreements is to internalise the negative externalities that emanate from unilateral trade policies. In addition, negotiating and signing trade agreements is seen as a commitment instrument that ineffective administrations can utilise to diminish domestic protectionist pressure from domestic producers. The negotiation theories, on the other hand, put forward that the motive of negotiating and signing trade agreements is for countries to evade reciprocally destructive inclinations of protectionism. In this regard, trading nations are viewed as better-off when they cooperate than pursuing unilateral trade policies. Furthermore, in negotiating trade agreements, current negotiations are usually linked to past negotiations undertaken by the negotiating parties.

Placing the trade agreements and trade negotiation theories, discussed in this section, in the context of SACU and the USA, there is a need for the internalisation of the negative externalities that may result from the possible increase in USA tariffs applied on SACU, if AGOA is not renewed after it expires in 2025. Hence, if SACU and the USA negotiate and sign a reciprocal trade agreement that builds on AGOA, both parties will be better-off than if they pursue unilateral trade policies. Since SACU and the USA attempted to negotiate a FTA between 2003 and 2007, one can assume that the potential bilateral trade negotiations between SACU and the USA will have some issues linked to the flouted 2003 to 2007 FTA negotiations between the two parties. Furthermore, the negotiations

¹³ Mercosur Member States (Mercosur, 2019): Argentina, Brazil, Paraguay and Uruguay.

¹⁴ The MC is the topmost decision-making body of the WTO, which usually meets every two years. It brings together all the WTO members and the MC can take decisions on all issues under any of the MTAs (Lloyd, 1997).

might also be linked to the issues encountered in the recent re-negotiations of the NAFTA. However, during the preparation phase of the potential bilateral trade negotiations between SACU and the USA, products that both parties should prioritise in the negotiation ought to be identified. This will enhance the negotiation outcome since the core export competencies and the size, growth and consistency of the import demand of both SACU and the USA are taken into consideration.

While it is well documented that free trade is beneficial for economic growth and prosperity, occurrences in the international political economy have profound effects on free trade policy (Busch & Mansfield, 2011). Having established the theoretical basis on which this study is grounded on, through discussing prominent international trade and negotiation theories in this section, literature on free trade and the international political economy is reviewed in Section 2.3.

2.3 Free trade and the international political economy

Trade is at all times political.¹⁵ Hence, the economics of trade cannot be alienated from its political facets (Adsera & Boix, 2002). Trade draws nations together, and in the process, create substantial economic, social and political inter-reliance (Oneal & Russett, 2015). However, it also creates a lot of rigidity and conflict between and amongst various nations (Elms, 2004). For most nations, trade can be viewed as a relaxed approach of creating income and employment (Krugman, 1993). Accordingly, it is frequently a fundamental constituent of economic growth and development plans of both developed and developing countries (Araujo & Soares, 2011). Therefore, countries are obliged to regulate trade with the intention of maximising benefits emanating from trade and limiting trade-related costs to their economies (Cali *et al.*, 2008). However, without established international regulations and procedures in a political economy that has turned out to be global in nature, domestic focused trade policies would challenge and battle with each other (Gilpin, 2016).

From the 16th to the 18th century, there were no international trade rules or guidelines, as they are known in the present-day (McGovern, 2017). The understanding of trade was mercantilist centred (see Section 2.2) in which countries used trade as a tool to augment their wealth, prestige, and power relative to other countries worldwide (Maneschi, 2007). Mercantilists strategies emphasised manufacturing for exports. In fact, mercantilists believed that the only way in which a nation would achieve prosperity is through maintaining a favourable trade balance by exporting more than it imports (Olsson, 2007). Nowadays, trade can be viewed within the context of three different perspectives of international political economy, namely liberalism, neo-mercantilism, and structuralism (Balaam & Veseth, 2008).

¹⁵ “Free trade, one of the greatest blessings in which almost any government can confer on people, is in almost any country unpopular” (Lord Macauley).

Economic liberals¹⁶ embrace the opinion that it is of slight significance who manufactured the merchandises, how, where, or under what conditions, provided that individuals have the freedom to buy and sell the merchandises on open markets (Loader, 1997). In the late 18th century, economic liberals saw the world hypothetically becoming a universal factory, where everyone could possibly benefit from trade, governed by Adam Smith's invisible hand regulatory mechanism of the market system (Smith 1776; Lemke, 2001). The views of economic liberals continue to be significant and common in modern days. In fact, they form the foundation of free trade policies promoted by numerous countries and global economic establishments such as the WTO, the International Monetary Fund (IMF), and the WB (Chang, 2002). A massive consensus exists that the benefits of a liberal or open international trade system far overshadow its adverse effects (Winters, 2004). In this regard, governments of different countries should play their role in limiting or controlling the demands for trade protectionism (Kee *et al.*, 2013).

Neo-mercantilists¹⁷ and structuralists¹⁸ are critical of the economic liberal's ideas about trade (Kirshner, 2009). From their mercantilist standpoint, neo-mercantilists view free trade policies as simply a basis for influential countries to uphold their prevailing advantage over their trading partners around the globe (Cwik, 2011). Many neo-mercantilists at present challenge the notion that comparative advantages mutually benefit all the parties involved in trade (Dornbusch *et al.*, 1977). They argue that employees in diverse industries and sectors of any economy can be expected to resist dismissal or shifting into other careers as comparative advantages move to other countries (Balaam & Veseth, 2008). Furthermore, countries can deliberately generate comparative advantages in the production of new goods and services by merely implementing tactical trade policies that heavily invest in those ventures (Lin & Chang, 2009). For instance, novel technology, expertise, and inexpensive labour can effortlessly assist a country's new industry to achieve comparative advantage relative to industries of another country (Porter, 2011).

Structuralists label the early mercantilist era as one of conventional imperialism (Cimoli & Porcile, 2010). The major European powers motivation to discover and colonise undeveloped regions of the world initiated in their own economies (Magdoff, 1982). Mercantilists' strategies that emphasised exports became essential when industrial capitalists' nations encountered economic depression (Olsson, 2007). Manufacturers in those nations over-produced industrial products, and financiers

¹⁶ Many of the economic liberals' views about trade are routed in the 18th century views of Adam Smith and David Ricardo who supported free trade (Loader, 1997).

¹⁷ Neo-mercantilism is an ideology that encourages the pursuit of a current account surplus, namely a persistent excess of exports over imports (Guerrieri & Padoan, 1986).

¹⁸ Structuralism is entrenched in Marxist analysis, but not limited to it. It explores international political economy matters primarily in terms of how diverse social classes are shaped by the prevailing economic structure (Kirshner, 2009).

had surplus of capital to invest abroad (MacQueen, 2014). Therefore, colonies served no less than two purposes: as a dumping place for the excess industrial products; and a place where investors could invest in industries that benefit from low-cost labour in addition to abundant natural and mineral resources (Acemoglu *et al.*, 2001). Structuralists argue that industrialising core nations transformed those natural and mineral resources into finished and semi-finished goods (Balaam & Veseth, 2008). Most of those goods were traded with other major powers and back to their colonies. To this day, trade plays a significant role in assisting imperialists' industrialised nations conquer the multitude of people in developing regions of the world (Semmel, 2004).

Many government officials over the years have tried to make use of trade as a tool or weapon to accomplish whichever consolidation of political, economic and social goals (Mott, 2004). Trade sanctions take various forms, which include import restrictions, boycotts, and embargoes that ban exports to another country (Vousden, 1990). These and other types of trade sanctions are one kind of penalty that countries use to reward allies, intimidate an opponent, or discipline an antagonist (Lindsay, 1986; Charnovitz, 2001). In the 1980s, for instance, the USA imposed a series of trade restrictions and economic sanctions on countries it perceived as either cohorts of communist revolutionary movements¹⁹ or advocates of terrorism²⁰ (Haass, 1998; Colás & Saull, 2007). In an even more recent case, the UN Security Council imposed a series of trade and other economic sanctions on North Korea in 2017 following its failure to discontinue production and testing of nuclear weapons (UN, 2017a). The belief here is that the sanctions will assist in changing North Korea's behaviour.

There is more to the use of trade as a tactic for rewarding allies or punishing a country (Lindsay, 1986). For example, pertaining to which trade sanctions to use in a particular circumstance, tensions repeatedly reveal contradictory domestic and external policy goals (Smith, 1995). Businesses often have vested interests in trade policy to the extent that global economic settings can either restrain or offer them with new prospects (Draper, 2017). Therefore, in most cases, countries are hesitant to utilise trade and other economic sanctions since they do not always achieve the intended aims and frequently have unplanned side effects (Ang & Peksen, 2007; Kryvoi, 2008). Nonetheless, trade remains an instrument that several countries use to assist in disciplining or sending an unfriendly message to another country.

In certain international political economy circumstances, the rationality of self-interest appears to govern (Balaam & Veseth, 2008). Many developed countries benefited from the liberal

¹⁹ Vietnam, Cambodia, and Nicaragua.

²⁰ Libya, Iran, Cuba, Syria, and Yemen.

international trade system, while erecting domestic trade and other protectionist policies (Panagariya, 2005). For example, Japan's export-led growth policy began to bear fruits in the late 1970s (Palley, 2012). Its Ministry of International Trade and Industry (MITI) assisted to select corporate winners that it and other administrative officials thought would flourish in the global economy, following state support (Krugman, 1986). The majority of the firms selected were high technology and high employment firms whose future was regarded considerably optimistic (Low, 2004). Cautiously working with their domestic firms, the Japanese and the newly industrialising countries began supporting their firms in a manner that would place them in a robust global competitive position (Balaam & Veseth, 2008).

It is worth mentioning that in a democratic country with elected legislative representatives, it is the country's obligation to safeguard its businesses and the society from the adverse effects of trade at both domestic and international level (Krugman, 1987). For instance, when most domestic clusters and businesses plea for state safeguard, they are much more likely to be awarded assistance (Sawakami, 2001). This emanates from the threat faced by elected representatives when these constituencies face redundancies or rivalry from low-cost imports (Grant, 1997). Hence, in countless circumstances, protectionism remains a common feature of a democratic system.

Protectionism signifies the methods that countries employ in restricting imports of foreign goods directly or indirectly (Kee *et al.*, 2013). The aim is to safeguard the domestic market from external rivalry, stimulate the expansion of domestic industries and safeguard national interest. The main frequently used trade protection methods consist of tariff and non-tariff trade restrictions (Laird & Yeats, 1990). While protectionism cushions the domestic infant industries from foreign import competition, it comes with a costs as it diminishes the variety of the products available to the market as well as consumer welfare (Hao & Ji, 2012).

Although the benefits of free trade attained nearly common acceptance among the principal economists by the early 19th century, the same economists and those who followed in later generations investigated circumstances in which economic benefits from contradicting free trade might exist (Irwin, 1996). One circumstance, put forward by John Stuart Mill in his publication "Principles of Political Economy" published in 1882, is that of stimulating "infant industries". In his publication, Mill (1874:26) stated that: "the only case in which, on mere principles of political economy, protecting duties can be defensible, is when they are imposed temporarily (especially in a young and rising nation) in hopes of naturalising a foreign industry, in itself perfectly suitable to the circumstances of the country".

Robert Torrens presented another case for contradicting free trade, in the 1840s. Torrens argued that as a replacement for free trade, reciprocity was the most sensible trade policy since a unilateral reduction in tariffs would result in weakening of the TOT (Bhagwati, 1994). His argument was met with excessive doubt until John Stuart Mill, in an essay in his publication “Essays on Some Unsettled Questions of Political Economy” published in 1844, developed the theory of reciprocal demand, which ultimately proved that Torrens’s argument holds (Mill, 1874).

With protectionist tendencies on the rise, a freer trading system seems compromised (WTO, 2016). The notion of free trade is gradually being replaced by the idea of fair trade or a win-win attitude (Nicholls, 2005; Ruben, 2008). Trade policy is shifting from the multilateral arena to bilateral negotiations between and among trading countries (Baier *et al.*, 2010). For instance, the current USA administration pulled the country out of the Trans-Pacific Partnership (TPP)²¹ in February 2017, in favour of USA first policy (White House [WH], 2017a). Speaking on the side-lines of the 2017 Asia-Pacific Economic Cooperation (APEC) conference, President Trump reiterated that the USA will no longer join large agreements that tie its hands, capture its sovereignty, and make meaningful enforcement practically impossible (WH, 2017b). Instead, the country will pursue one-on-one trade deals with other nations that pledge reciprocal and fair trade. The Trump administration frequently accuses China of unfair and abusive trade practices, which have seen an enormous trade deficit being registered by the USA against China over the past years (Lowry, 2018).

It is probably this quest for fair trade that prompted the administration to sign a pair of proclamations to impose a 25% tariff on steel and a 10% tariff on aluminium imported from all countries²² (WH, 2018). These severe tariffs were levied based on national security. The decision by the USA to increase the tariffs on imported steel and aluminium was not received well by some affected WTO Member States who are of the opinion that the tariffs are discriminatory due to their selective application (McBride, 2018). Accordingly, this selective application is against the WTO’s MFN principle (WTO, 2018a).

The USA was also accused of increasing tariffs on certain products to rates above the WTO bound rates (WB, 2010). While signing the proclamations, President Trump reiterated the threats about a

²¹ TTP is a prospective trade deal initially signed by 12 nations that borders the Pacific Ocean before the withdrawal of the USA by the current administration in February 2017. The trade deal aims at deepening trade and economic links between the Member States, reducing tariffs, and promoting trade to improve economic growth (WH, 2017a).

TTP member states: Australia; Brunei; Canada; Chile, Malaysia; Japan; Mexico; New Zealand; Peru; Singapore; and Vietnam.

²² With the exception of Canada and Mexico.

“reciprocal tax” package, which he believes would warranty fair trade deals for the USA (WH, 2018).

However, some lessons can be gathered from the dual-player game theory scenario of the PD discussed in Section 2.2.2.1. For instance, collaboration is more prospective when the countries negotiating are part of a long-term relationship, where they will be repeatedly confronted with consequences of their actions (Balaam & Veseth, 2008). Such is the state of affairs in international trade. Protectionist tendencies generate unfavourable effects for both the imposing country and the receiving country (Abbott, 1985). On the other hand, if countries choose to cooperate (i.e. liberalise trade), they can avoid the mutually damaging effects of protectionism.

Nevertheless, the proliferation of international trade under the auspices of the WTO has led to considerable expansion of trade liberalisation in the past decades (Siddiqui, 2015). Countries can benefit economically through liberalising trade and exploiting areas of comparative advantage (OECD, 2018). However, in recent years, many countries have started to safeguard their economic development and political steadiness, and this has resulted in trade protectionism making great strides (Hao & Ji, 2012). As alluded to earlier, negotiations on trade-related matters are gradually shifting from multilateral to bilateral and/or regional level. A discussion of trade negotiations and the trade negotiation process at both multilateral and bilateral level is provided in Section 2.4.

2.4 Trade negotiations

Countries engage in trade negotiations for numerous reasons, which include economic, political and strategic motives (Richardson, 1990). As alluded to in Section 1.1.1, negotiation is defined as a process whereby two or more parties seek an agreement to establish what each shall offer or take, or perform and receive in a transaction between them (Maiese, 2003; Saner, 2012). Similarly, negotiation can also be defined as a process of interaction by which two or more parties seek, by the use of argument and persuasion, to resolve their differences in order to achieve a mutually acceptable resolution (Raihan, 2004). Therefore, negotiation takes place between two or more parties who consider they need to be jointly involved in an outcome, but initially have different objectives (Fowler, 1996).

As mentioned in Section 1.1.1, in any trade negotiations, there are benefits that ought to be sought and positions that should be safeguarded, while an equivalent circumstance is encountered on the other side of the negotiating table (Dyson & Featherstone, 1999). Each participant in the negotiation must have an unambiguous depiction of where the bottom lines of the negotiating parties are (Raifa, 1982). However, this is not at all times the case, as the bottom line of the other participants is often

unspecified. In this regard, one party to the negotiation is sometimes disadvantaged by an asymmetric knowledge problem (Cooke, 2005). Consequently, the asymmetric knowledge problem is related to asymmetrical power²³ (Dwyer & Walker, 1981; Schneider, 2005). This stresses the importance of enhancing capacity before engaging in free trade negotiations.

Regardless of the nature of the trade agreement, it is vital that the members to the agreement possess the capacity to promote its expansion, to be totally involved at each phase of its negotiation, and to warrant tolerable enactment and execution of its requirements (AfDB, 2016a). Hence, successful involvement of developing nations in free trade negotiations hinges on the perpetual advancement of their capacity to ascertain trade and economic growth objectives, to devise policy standpoints and to institute negotiation strategies or tactics (UNITAR, 2010).

In some cases, the seeds of a successful free trade negotiation outcome are disseminated at the beginning of the negotiation (Raifa, 1982; Wheeler, 2013). Particular approaches such as framing²⁴ and reframing²⁵ may perhaps be valuable if instituted prior to establishment of the trade negotiation (Putnam & Holmer, 1992). For instance, in a trade negotiation, a suggestion can possibly be framed as pleasant or unpleasant (Oughton & Bracken, 2009). Similarly, a fact may perhaps be identified as an opportunity or a threat. According to Crump (2005), framing and reframing of fundamental concerns have an intense effect on the variation of power relations among the negotiating parties.

Properly preparing for potential trade negotiations renders the real negotiations a more convenient undertaking (Opresnik, 2014). The preparation phase may be utilised as the phase to devise the negotiating goals (EC, 2013). Similarly, it is the phase to ascertain, both in the domestic as well as in partner country, businesses, industry associations and other non-governmental organisations, such as consumer groups, that may possibly have vested interest in the trade agreement (Bilal, 2003). Such an initiative is aimed at ascertaining the various stakeholders' positions on what the trade agreement ought to contain and hence should be covered in the negotiations (Make, 2007).

In recent years, countries progressively play a part in multilateral trade negotiations, while simultaneously concluding BTAs and/or RTAs (Whalley, 1998; Bagwell & Staiger, 2005; Deardorff & Stern, 2009). What is certain is that they undoubtedly anticipate benefits in either circumstance.

²³ One party to the negotiation is understood to be capable to exercise power because of its size (Schneider, 2005).

²⁴ Construction of a narrative, story, or argument.

²⁵ Reconstruction of a narrative, story, or argument.

Based on the comparison between multilateral and bilateral trade negotiations, it is apparent that multilateral trade negotiations possess superior advantages over bilateral trade negotiations. Furthermore, bilateral trade negotiations can rarely resolve all bilateral market access concerns (Mayer & Zignago, 2005). Some universal concerns may only be accomplished in a multilateral setting (Hoekman, 1992). From the standpoint of the WTO, it is therefore sensible that multilateral trade negotiations must be desired over bilateral trade negotiations (UNITAR, 2010). However, where multilateral trade negotiations are not promising, bilateral trade negotiations must be undertaken if feasible. In this regard, it is worth mentioning that bilateral trade should supplement and not substitute or displace multilateral trade (Azevêdo, 2014).

Although there is no one-size-fits all approach to trade negotiations, it is possible to isolate key elements that are required to hypothesise multilateral and bilateral trade negotiation processes (EC, 2013). The trade negotiation process at both multilateral and bilateral level is comprehensively discussed in the following section.

2.4.1 The trade negotiation process

Although there are diverging sentiments on the impact of trade liberalisation, it cannot be overlooked that trade liberalisation is positively correlated with export and economic growth (Shafaeddin, 1995; Bustos, 2011). In fact, those nations that liberalised their trade policies not merely witnessed a rapid growth in exports, but correspondingly witnessed rapid and more inclusive economic growth (Sánchez-Reaza & Rodríguez-Pose, 2002; De Loecker, 2011). This task of liberalising trade is fostered through different kinds of negotiations, which include bilateral and multilateral trade negotiations (Bagwell & Staiger, 2004). Nevertheless, each kind of negotiation encompasses different phases that require diverse negotiation tactics (Saunders, 1985; Saner, 2012). As a result, negotiators must be better equipped with regard to the manner in which distinct phases of a negotiation should be dealt with.

The accomplishment of each type of negotiation hinges on the preparation of the negotiators as to: the extent to which they have evaluated and comprehended the interest of various stakeholders who have vested interest in the trade agreement; and the manner in which they advance to achieve a win-win position (UNITAR, 2010). In this regard, developing nations have over the past years assumed a lively role in multilateral trade negotiations (Draper & Sally, 2005; WTO, 2018b). Furthermore, their negotiating skills have developed relative to their mere observer role in the past (Page, 2002). Nonetheless, challenges still exist. For instance, capacity constraints of negotiators, which developing countries need to address if they are to achieve their desired outcomes in the negotiation process (Nakatomi, 2013).

Although a framework of a general bilateral trade negotiation process has been introduced in Section 1.1.3, the fundamental phases of a trade negotiation process are generally similar in all types of trade negotiations (UNITAR, 2010; Saner, 2012). Hence, a comprehensive discussion of the main phases of a trade negotiation process is provided in Section 2.4.1.1.

2.4.1.1 Phases of a trade negotiation process

A fruitful trade negotiation outcome is governed not only by respectable negotiating abilities at the bargaining table, but by correspondingly cautious planning and preparation of negotiators centred on rigorous research and analysis (Saner, 2012). As alluded to in Section 1.1.1, trade negotiation is a process and not an event. In this study, the trade negotiation process is categorised into three major phases, namely preparation, negotiation, and the conclusion phase. The preparation phase is the initial phase where the negotiators: ascertain the problem area and associated conflicts; identify those with vested interest in the negotiation; plan and organise an operational consultation process; institute a negotiating team and advance a negotiating agenda; and formulate negotiating positions and strategies (World Bank Institute [WBI], 2004; Bhattacharya, 2005; UNITAR, 2010; Saner, 2012; EC, 2013).

The negotiation phase is the second phase in the trade negotiation process where the actual negotiations take place among the negotiating parties. In this phase, the negotiators: take some time to familiarise with each other, with the location, and with the components of the situation; put forward their positions; and edge closer or approach each other (WBI, 2004; Bhattacharya, 2005; UNITAR, 2010; Saner, 2012; EC, 2013). The conclusion and assessment phase is the last phase where: the negotiators conclude and evaluates the trade negotiation in order to ascertain whether the negotiation is comprehensive or if there is, to some extent, scope for future negotiations; text legally scrubbed; formal signatures signed to formalise the agreement; and the agreement published and implemented (WBI, 2004; Bhattacharya, 2005; UNITAR, 2010; EC, 2013).

According to Saner (2012), it is imperative to note that the tasks assigned to each phase of the trade negotiation process should not be considered to have been dealt with until the whole trade negotiation is concluded. Each phase simply brings new tasks and important facts and arguments to the fore (Bhattacharya, 2005). The major phases of the trade negotiation process along with the distinct steps undertaken in each of these major phases are discussed below.

A. Preparation phase

The preparation phase is the most significant phase in the trade negotiation process (Tomlin, 1988;

Zartman, 1989). As already mentioned in this section, preparation and meticulous planning of the negotiators is one of the prime determinants of a successful trade negotiation outcome. In fact, trade negotiation is arguably comparable to sporting activities (Opresnik, 2014). Every single achievement is based on training or exercise and acceptable preparation (Lyle, 2005). Preparing for a trade negotiation requires time, resources and effort (Ghauri, 2003). However, it is vital in order to attain an effective trade negotiation outcome.²⁶

The preparation phase of the trade negotiation process consists of the following main steps comprehensively discussed below: problem identification; interest identification; consultation process; establishment of a negotiating team and developing a negotiating agenda; and the formulation of negotiating strategies and positions (WBI, 2004; Bhattacharya, 2005; UNITAR, 2010; Saner, 2012; EC, 2013). However, it is in this phase of the trade negotiation process that this study aims to contribute to by developing a product-level prioritisation method that can be used to identify priority products and sectors in the context of bilateral trade negotiations.

Even though the inclination towards bilateralism is growing, in the preparation phase of the bilateral trade negotiation process, the evidence on product-level prioritisation methods, specifically designed to inform trade negotiations by considering both countries' core export competences and the size, growth and consistency of the import demand, is silent. The identification of priority products and sectors, following a product-level prioritisation method, should therefore form part of the steps that must be fulfilled in the preparation phase of the trade negotiation process when the negotiating process is applied in the framework of bilateral trade negotiations. This enhances the trade policy analysis capacity of many countries, more especially developing countries.

❖ Identification of trade dispute

Trade negotiations emerge when trading nations acknowledge a stumbling block or an opportunity that they believe can be resolved or completely exploited through a negotiated settlement (Bagwell & Staiger, 2004). Hence, the opening question to be answered at the onset of a trade negotiation process is whether there is a trade dispute or prospect that cannot be settled or accomplished through domestic processes and that may be open to intergovernmental negotiations (Carranza, 2003). For instance, economic growth and development may be opportunities that complement trade liberalisation (Krueger, 1998; Greenaway *et al.*, 2002). However, the major problem is that trade protectionism has been growing in recent years (Bhagwati, 2014; Coppel, 2017).

²⁶ “By failing to prepare, you are preparing to fail” (Benjamin Franklin).

The welfare of other participants can be anticipated and intentions and inclinations can be devised when the nature of a trade dispute is undoubtedly comprehended by the negotiators (Wertheim, 2002). This normally incorporates the following: firstly, establishing the historical underpinning of the trade dispute²⁷ along with modifications that occurred since the commencement of the original trade dispute²⁸; secondly, establishing the composite elements of the trade dispute and disintegrating the trade dispute into multiple components that would facilitate development of multiple resolutions for distinct parts of the trade dispute; and lastly, framing the crucial concerns by fragmenting the trade dispute into numerous parts and then give precedence to the most imperative issues (Bhattacharya, 2005; UNITAR, 2010). Appropriate time and resources are then dedicated to resolve those aspects of the trade dispute that are fundamental to the resolution of the trade dispute (Department of Trade and Industry [DTI], 2001).

❖ Interest identification

Once the dispute is clearly understood, the negotiators have to ascertain who may win and who may suffer a loss in the trade negotiation (Food and Agriculture Organization [FAO], 1993). Of particular importance is the recognition of any influential interest groups that may, in one way or the other, sustain or strongly contest attempts to negotiate a resolution to the trade problem or dispute (Dür & Mateo, 2014). The possibility of attaining a successful negotiation outcome is great if a negotiator does not solitarily uphold and enhance his own interests, but also supports the other negotiator to accomplish certain interests of the represented party (Thompson & Hastie, 1990; Bhattacharya, 2005). In fact, a healthier comprehension of personal interests as well as those of the counterparts is a substantial determinant of a fruitful negotiation outcome (Foldes *et al.*, 2011).

For interest identification, the questions that negotiators ought to ask themselves are: what is the purpose of these negotiations; what are they going to argue for; why does the other side intend to negotiate; what are their interest; and what can they do to fulfil their interest with as minimal concessions as feasible (Oyejide, 2000; Saner, 2012). In international trade negotiations, interests may revolve around issues of: national political concerns; national policy aims such as, environmental integrity and, safeguard of resources; domestic security; economic wellbeing; internal legal necessities; bureaucratic interests; issues of recognition (legitimacy); and ethical

²⁷ This may comprise previous practices, tariffs, quotas, dumping, and other trade-related practices that have characterised a trading relationship (Bhattacharya, 2005).

²⁸ This may consist of changes in political parties or representation, in major players within government administration or in business interests (UNITAR, 2010).

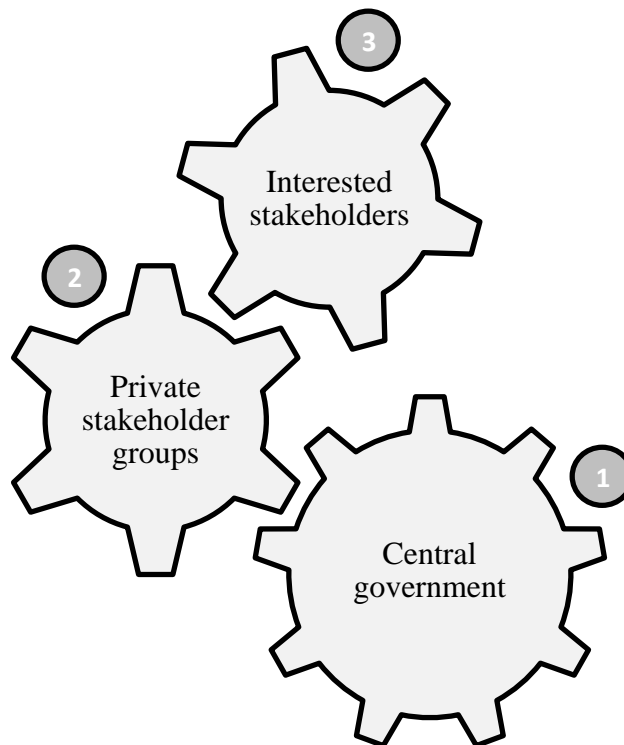
or moral values (Page, 2002; UNITAR, 2010).

❖ Consultation process

Once stakeholders and their core interests have been identified, it is imperative to plan and organise a functional consultation process (UN, 2017b). This emboldens supplementary understanding of stakeholders' needs and permits the collection of information necessary to institute a negotiating agenda (Tallberg, 2006). Furthermore, an effective consultation process enables the establishment of a domestic position on each and every issue to be negotiated (Gallagher *et al.*, 2005; Rudaheranwa & Atingi-Ego, 2005). It is the nature of trade negotiations that they often consist of people of different nationalities, racial groups, traditions, religions, and socio-economic backgrounds (Jawara & Kwa, 2004). These individuals, who in most cases almost always hold diverging views, represent governments and other numerous stakeholders that have vested interest in the negotiation (Brouthers & Bamossy, 1997). Nonetheless, the negotiation process should be profoundly centred on stakeholders who are adequately influential and interested in the negotiation outcome (WBI, 2004).

Bhattacharya (2005) identifies three groups of stakeholders that must be involved in the consultation process. A graphical representation of these three groups is shown in Figure 2.1.

Figure 2.1: Participants in the consultation process



Source: Adapted from Bhattacharya (2005)

The first group consists of stakeholders within the central government. In other words, the strategic ministries and departments accountable for trade protocols covered by the trade negotiation (Mattoo *et al.*, 2008). Consultation with the members of this group is usually regular and more frequent (USTR, 2015). In fact, it may be held throughout the duration of the consultation process. The second group comprises representatives or key private stakeholder groups who are commonly invited to participate in diverse advisory bodies. This warrants a high level of consensus with prominent private stakeholder groups, since the advisory bodies provide direct feedback to negotiators concerning proposed negotiating positions (Spangler, 2003).

The third group encompasses all other stakeholders with vested interest in the outcome of the trade negotiation. Members in this group are generally invited to take part in consultations and meetings covering the trade negotiation (WTO, 2014a). In this manner, they are granted an opportunity to express their opinions.

In the preparation phase of the trade negotiation process, consultations held may possibly include: inter-departmental consultations; political consultations; continuous consultations with central government, provincial government, private sector stakeholders, and other interest clusters in order to build a broad-based support for the trade negotiation; and consultations with trading partner(s) designed to confirm interest and analysis of concerns (Fisheries and Oceans Canada [FOC], 2004; Bhattacharya, 2005).

❖ Identifying products and sectors that should be prioritised in the trade negotiation

Once the consultation process has been undertaken, products and sectors to be prioritised in the negotiation should be identified. It is vital that those products and sectors in which the negotiating parties possess core export competences and consistently large and/or growing import demand, be part of the trade agreement. In other words, products that the negotiating parties can produce and consistently export competitively (i.e. sustainable exports), while at the same time possessing consistently large and/or growing import demand, should form part of the trade deal. With the increasing significance of the notion of fair trade deals, this partially guarantees a trade deal acceptable to both parties.

The products and sectors to be prioritised in the trade negotiation are carefully selected through the application of the product-level prioritisation method developed in this study (see Figure 1.2 in Section 1.7.1). However, this product-level prioritisation method is applicable in the case of non-multilateral trade negotiations.

❖ Establishment of a negotiating team and developing a negotiating agenda

At this stage of the negotiation process, the department of trade and other government departments with proficiency and interest in the trade negotiation have already appointed the chief negotiator and a team of supporting officials (Bilal, 2003). The team of supporting officials may include, but not limited to, representatives from appropriate government ministries, departments, and government agencies (Shi, 2001; Winham, 2014). According to Bhattacharya (2005), supplementary consultation would also be held to develop a negotiating agenda based on: issue identification; empirical and policy research analysis; and outcomes of consultations with domestic interest groups and trading partner(s). Furthermore, if necessary and desirable, a distinct negotiating trajectory could also be established to address trade-related issues such as environmental, labour, and intellectual property rights (Sebenius, 1983; OECD, 2007).

❖ Formulation of negotiating strategies and positions

At this stage, negotiating strategies and positions may be formulated based on available information, consultations and ongoing analysis (UNITAR, 2010; UN, 2018). It is essential that negotiators have a clear negotiating goal in mind. This will allow them to effectively prepare and accomplish the trade negotiation (Zartman, 1989). Negotiators ought to also consider or determine allied concerns in the trade negotiation and prepare on varied outcomes of the negotiation (Maddux *et al.*, 2008). Logical and tactical analysis of the information available have to be undertaken in developing the negotiating strategy (Corvette, 2007). If possible, the negotiating strategy should include the following: establishing negotiation outcomes and priorities for self; establishing negotiation outcomes and priorities for other participants; detecting and evaluating key trade-offs; and ascertaining all potential negotiation outcomes and implications (Bhattacharya, 2005; Stevens & Phillips, 2007; Aghion *et al.*, 2007).

Classification of issues associated with the trade negotiation, according to their significance and applicability to the trade dispute, may be predominantly valuable when establishing desired negotiation outcomes and priorities for self as well as for other participants (Katz & McNulty, 1995; Galinsky *et al.*, 2008). Every issue has to be classified both from self-perspective and from the perspective of other participants. Highest and least possible anticipations from the negotiation of a specific issue must be determined (Make, 2007). The highest possible anticipation from the negotiation should form the opening position of the negotiators, while the bottom line (i.e. the least possible anticipations) should be the negotiators' reserved position (Bhattacharya, 2005). Amid these two extreme positions, several alternative negotiation

outcomes on each of the issues to be negotiated, should be identified (UNITAR, 2010). All the potential negotiation outcomes should be taken into consideration and the significance of failure to attain an agreement must also be determined (Pruitt, 1991).

When formulating a negotiating strategy, it is also essential for negotiators to carefully select a suitable negotiating behaviour to be applied in the negotiation of myriad of issues (Pruitt, 2013). In a trade negotiation, negotiating parties bring diverging interests and positions to the negotiating table. Saner (2012) describes the following five broad categories of negotiating behaviours or modes of conflict management:

- ✓ first, aggressive behaviour that characterises a power-oriented behaviour in which a negotiator pushes hard and uses anything necessary to accomplish the desired objective without much consideration of satisfaction of the interests of other participants;
- ✓ second, cooperative behaviour that signifies an attempt where a resolution is established in collaboration with other participants through taking into consideration their needs and interests;
- ✓ third, avoidance behaviour that represents a combination of non-cooperative behaviour with a deficiency of assertiveness, normally leading to a no-gain resolution where none of the participants' interests are met. This strategy may possibly be utilised to postpone or defer awkward issues that might not be pleasant to an agreement until a more positive moment (Taylor & Donald, 2004).
- ✓ fourth, collaborative behaviour that calls for the participants to thoroughly familiarise themselves with the conflict and its origins, with the intention of working towards discovering a constructive mutual approach. Without deviating from their own interests and principles, each party reconciles the discrepancies separating them and learn from each other's standpoint and experiences (Raiffa *et al.*, 2002). This calculated choice of negotiating behaviour may possibly be executed by signalling aspiration for an agreement, exchanging information about self-priorities or needs, and brainstorming in addition to reciprocal assessment of possibilities (Pruitt, 2013; Coburn, 2015).
- ✓ Fifth, compromise behaviour in which participants in the negotiation may find a middle ground, with the aim of achieving a reasonable alternative that might possibly be partially satisfactory to both parties. Negotiating positions for such a resolution lie amid collaboration and avoidance. Here, the participants make moves towards one another or seek for a rapid agreement that is satisfactory because it is acceptable to them (Druckman, 2006).

However, the choice of the negotiating behaviour relies upon the nature of the task at hand, the setting, and the personality of the negotiator who is negotiating (Kilman & Thomas, 1974; Dupont 1996). After successfully preparing for the trade negotiation, the actual negotiation can now commence.

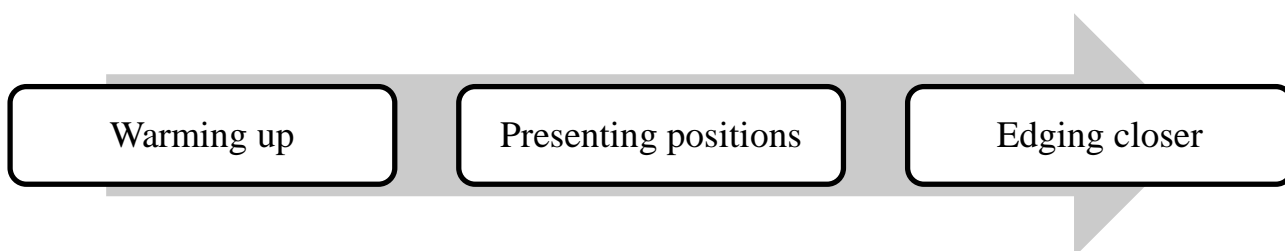
B. Negotiation phase

The face-to-face trade negotiations are the pinnacle of a lengthy and comprehensive process (WBI, 2004). At this phase of the trade negotiation process, the negotiating strategy will be implemented, requests will be made, concessions will be offered, and compromises are reached (Bhattacharya, 2005). In multilateral trade negotiations, it is in this phase that negotiators identify potential alliance partners and acquaintances who share mutual interests with them (Hampson & Hart, 1999; Hurrell & Narlikar, 2006). In fact, forming alliances permits negotiators to supplement their influence in the trade negotiation process. Alliance partners may likely include other governments, Non-Governmental Organisations (NGOs), business enterprises, members of the media, industry associations, or even members of the academic community (Page, 2002; Steuart, 2005).

In addition to the identification of alliance partners, negotiators should also ascertain conflicting interests that may probably adversely affect the accomplishment of their negotiating objectives (Opresnik, 2014). In this regard, the negotiators ought to determine how stakeholders promoting conflicting interests in the trade negotiation process may be approached (Maiese, 2003; Chinyio & Akintoye, 2008). Furthermore, the negotiators should be determined to discover how the conflicting interests of such stakeholders may perhaps be counteracted or diluted in the trade negotiation process. This will enable negotiators to prepare well for any undesirable circumstances in the trade negotiation process.

Three basic steps followed in the negotiation phase of the trade negotiation process are outlined in Figure 2.2.

Figure 2.2: Three basic steps in the negotiation phase of the trade negotiation process



Source: Adapted from Saner (2012)

A discussion of each of the basic steps of the negotiation phase of the trade negotiation process is provided below.

❖ Warming up

In this step, the negotiators of both parties should considerably take time to acquaint themselves with each other as well as with the location and core of the situation (Beliaev *et al.*, 1985; Craver, 2003). In order to break any ice that may still be present, the atmosphere needs to be friendly (Bhattacharya, 2005). The amount of time apportioned to this stage of the negotiation phase and the effort put into it will obviously hinge on the purpose of the trade negotiation, and will also vary extensively in terms of cultural setting in which the trade negotiation transpires (Shenkar & Ronen, 1987; Nordbo, 2010; Grossman, 2016). For instance, in the Arab and Asian countries where cultural values are relationship oriented, warming up may account for the majority of time allotted to the negotiation phase (Hooker, 2008; Manrai & Manrai, 2010). In these parts of the world, personal relationship is very important. In fact, the simplified belief is that if the partner is right, business will most likely take care of itself (Shapiro *et al.*, 1992; Kanter, 1994). Hence, personal contact as well as a conducive atmosphere that will hold during the course of the negotiation and endure difficult moments of confrontation should be cultivated (UNITAR, 2010).

Besides creating an enabling atmosphere, the warming up step has another function. It is in this step where all the issues to be proposed or deliberated on in greater detail afterwards should now be brought out onto the negotiating table (Leary *et al.*, 2013). Understandably, any surprises that the negotiators may possibly be planning are omitted. According to Saner (2012), this *tour d'horizon* offers both parties a synopsis of the issues under deliberation and expedites the quest for potential resolutions afterwards. This enables the negotiators of all the parties involved in the trade negotiation to be more conscious of the significance of the negotiation (Gates, 2011). Furthermore, any antagonistic concerns may be acknowledged and negotiating strategies modified to match the fresh setting (Hunt, 2013). Negotiators may also scale each other in the context of whether or not their negotiating counterparts possess genuine authority (Mintu-Wimsatt & Calantone, 1996; Make, 2007). Nevertheless, at this stage, it is not late for the negotiators to withdraw from the negotiations and call for negotiating counterparts with corresponding expertise and directive (Saner, 2012).

❖ Presenting positions

All the trade issues to be negotiated are now on the negotiating table. Even though their

frameworks are not precisely defined, of significance here is the fact that all the negotiating parties have been afforded the opportunity to take notice of the trade issues (Bhattacharya, 2005). Negotiating parties' own negotiating positions can now be established and presented. The negotiating parties exchange arguments in favour of their own negotiating positions and there may be signals of initial trade concessions (Zahrnt, 2008). However, this nature of argumentative exchange ought to be temporary (Provis, 2004). Hence, in order to avoid any obligations at this stage, carefully selecting communicating vocabulary is of paramount importance (Bravo *et al.*, 2005). In this regard, conditional tenses will generally be the most appropriate to utilise. In other words, the verbal *communiqué* encloses restrictive expressions such as depending on, perhaps, if, might, try, and so on (Wallwork, 2014). In order to determine the other party's reservation price and its zone of possible agreement, numerous open-ended questions as possible may be utilised (Raifa, 1982). For instance, open questions such as: could you explain to me...; I did not quite get that, could you...; what do you think of... may be used by the negotiators (McMains, 2002).

Trade negotiations have a considerably comprehensive outlook (Sjöstedt, 1994). This emanates from the prospect that they have to show the way to the best possible integrative resolution (Cutcher-Gershenfeld, 2014). This step of the negotiation phase is aimed at presenting negotiating positions in a pleasant, but well-founded conduct, so as to warrant a satisfactory negotiation outcome as an element of an integrative resolution (Saner, 2012). It is vital to keep this objective in view during the course of the trade negotiation.

❖ Edging closer

Once the negotiating parties have familiarised with the location and each other, further details have been added to the trade issues to be deliberated on, and the respective negotiating positions have become transparent, the negotiators can begin to approach each other (UNITAR, 2010). Metaphorically, prior to dividing the pie, it has to be baked (Bhattacharya, 2005). In other words, in order to obtain something, it is sensible to offer something in return (Kitamura, 1997). This fosters collaboration towards positive resolutions to the existing trade dispute, using the greatest creativity (Lowenthal, 1982). What the negotiating parties have in common is more important here than what separates them (Fisher *et al.*, 2011). This does not mean that each party to the negotiation cannot keep its own interest in its sight, it is simply not the right time to display them (Brach, 2008).

Explicit details of the trade issues deliberated on will now be ironed out in greater detail and bundled together into alternative resolutions (Donohue, 2018). What needs to be completed later

is for the negotiating parties to decide between these alternative resolutions and sign the document (Make, 2007). It is in this step of the negotiation phase where the integrative element of the trade negotiation process is hammered out (Thompson, 1991). Even though it consumes great effort and time to nurture a sincere and cooperative negotiating atmosphere, it genuinely pays off (Saner, 2012).

C. Conclusion or breakdown phase

If everything has progressed in the right manner, single or numerous negotiation outcomes favourable to all negotiating parties would have been reached at the completion of the negotiation phase of the trade negotiation process (WBI, 2004). On the contrary, it might have been impossible to reach consensus on antagonistic issues and cooperation has been unsuccessful (Thompson, 1990). Furthermore, it is possible that the negotiators have not yet surpassed the phase of allotment and disagreement (Hopmann, 1996). Regardless of the circumstances, the last phase of the trade negotiation process is intended to set in motion a suitable closure of the trade negotiation (Zartman, 1989). The conclusion or breakdown phase of the trade negotiation process consists of the following main steps: assessment of the negotiation; formal signatures; and publication and implementation of the negotiation (Bhattacharya, 2005; UNITAR, 2010; Saner, 2012).

❖ Assessment of the negotiation

After the completion of the actual trade negotiations and the elements of the trade agreement have been positioned, it is necessary to assess the entire negotiation outcome (Saorín-Iborra, 2006). This allows all parties to the trade negotiation to establish whether an effective trade agreement is feasible or if there is a necessity of an additional round of negotiations (Page, 2002). Assessment of the trade negotiation outcome is normally obligatory once the negotiating parties have achieved an agreement (Irmer & Druckman, 2009). At this stage, negotiators typically step aside and hand over the task to legal officers and official decision-makers who carefully collaborate with the negotiators to develop a draft text (WBI, 2004; EC, 2013). It is only the official decision-makers who possess the authority to assemble the ultimate trade agreement from the numerous alternative resolutions (Meunier & Nicolaidis, 1999). It is also the duty of the official decision-makers to formally sign the agreement or at best initial it in the case that the final decision has to be ratified by the respective parliament (Servent, 2014).

❖ Formal signatures

Pending formal signing of a legally binding trade agreement, the resolution achieved only exists

in the minds of the negotiators (Kleimann & Kübek, 2016). In other words, a binding trade agreement has not yet been accomplished. Hence, there is still an option of withdrawing from the trade negotiation until the agreement has been formally signed (Schwartz & Sykes, 2002). In this regard, the sooner the retreat the better for all those with vested interest in the trade negotiation (Winham, 2014). It would be even worse to conclude a trade agreement that one or more parties would desire not to have signed (Rodrik, 2018). In such a circumstance, implementation of the trade agreement would presumably be challenging if not impossible (Hoekman, 2011). Consequently, it is important that the trade agreement be regarded by all parties as being better than no agreement whatsoever (Bhattacharya, 2005).

❖ Publication and implementation of the negotiation

Once the trade agreement has been formally signed, and is therefore legally binding, the agreement is published and incorporated into the laws and regulations of the respective Member States (EC, 2013). At this stage, the trade agreement enters into force. Hence, it is crucial for the negotiating parties to monitor the implementation process of the trade agreement in each other's jurisdictions (UNITAR, 2010). This serves to maintain confidence in the trade agreement.

As already mentioned, the tasks allotted to each phase of the trade negotiation process should not be considered to have been dealt with until the whole trade negotiation is concluded. Nevertheless, some developing countries may face capacity constraints when it comes to trade policy analysis and negotiation. Such trade negotiation and trade policy analysis capacity constraints are discussed in the following section.

2.5 Trade negotiation and trade policy analysis capacity constraints

Whereas developed countries enjoy sufficient trade negotiation and trade policy analysis capacity, the developing and LCDs are commonly constrained by inadequate resources, insufficient capacity, and lack of expertise (Page, 2002). In fact, developed countries are generally more experienced in negotiating trade agreements relative to their developing counterparts whose experience in negotiating trade agreements is often limited (OECD, 2003). Consequently, there is a conventional propensity for developed countries to navigate the agenda and dominate the negotiation process (Dür, 2015). The likelihood for developing and LCDs is to be engaged in a trade agreement where they had no significant influence and contribution in the respective negotiations (Bilal, 2003).

The trade negotiation capacity constraints of some developing countries, at multilateral level, are revealed in the following facets: first, the deficiency of negotiating capacity at human resources level; second, the absence of coordinating capacity at institutional level; and third, the lack of

negotiating and supporting capacity at societal level (OECD, 2003). These constraints, which to a larger extent are not applicable to developed countries, may constrain the capacity of some developing countries to effectively prepare for trade negotiations (WTO, 2019b).

To formulate effective trade policies and negotiation strategies, domestic consultations and analytical support are essential (WB, 2009). They are also vital for the implementation of the multilateral obligations, transformation of trade agreements into domestic laws and regulations, and safeguarding of trade interests (OECD, 2003). Consequently, the preparation phase of the trade negotiation process ought to include strategic development economic research and analysis, specifically focusing on the numerous negotiating concerns and matters in light of the country's own developmental policies, necessities and priorities (Page, 2002). Such research and analysis should clearly identify the motives for undertaking the trade negotiations and the country's strategic developmental purposes for such negotiations (UNCTAD, 2002). It must also ascertain the possible and real impacts of such trade negotiations on the country's present economic circumstances and developmental projections (Tussie, 2009).

In spite of trade policy analysis capacity constraints faced by some developing countries, it is worth mentioning that, in recent years, quantitative and comprehensive trade policy information and analysis are more crucial than they have ever been (EC, 2019a). Globalisation and, more specifically, trade liberalisation have become progressively contentious. Questions have been asked regarding whether or not the gains from trade agreements surpass the costs of the trade agreements (Blinder, 2019). Concerns in relation to the distributional consequences of trade policy transformations have also been articulated (Van Assche & Gangnes, 2019).

Although quantitative analysis cannot provide all the answers to trade policy questions, it can assist in guiding the trade policy formulation process and to safeguard that preferences are grounded on thorough awareness of underlying realities (UNCTAD & WTO, 2012). Therefore, researchers and policymakers should expand their knowledge of quantitative economic approaches and data sources for trade policy analysis (Bown & Crowley, 2016). The belief is that respectable trade policy needs to be supported by decent trade policy analysis.

It is therefore significant for policymakers and other trade policy stakeholders to have access to reliable comprehensive information and analysis on the potential and actual effects of trade policies as this information is required at diverse stages of the trade negotiation and policymaking process (EC, 2019a). For instance, during the preparation phase of the trade negotiation process, the information is utilised to assess and evaluate the possible impacts of the potential trade agreement

as well as to conduct trade policy dialogues with all stakeholders with vested interest in the respective trade negotiations (UNCTAD & WTO, 2012).

The effective involvement of some of the developing countries in the negotiations of trade agreements would eventually hinge on the long-term enhancement of their capacity to identify trade and development objectives, formulate trade policy positions and to establish meaningful trade negotiation strategies (Bilal, 2003). In the context of trade agreements emanating from the respective trade negotiations, the implementation and enforcement of the trade rules are more important than the rules themselves (Zhang, 2008).

Regardless of trade negotiation and trade policy analysis capacity constraints faced by some developing countries, the trade negotiation process outlined in the previous section is applicable to negotiation of different types of trade agreements discussed in Section 2.6.

2.6 Trade agreements

Trade agreements have become a noticeable feature of international trade and has proved to be one of the honourable ways utilised by countries to open up external markets to domestic products and services (Schott, 2004). In fact, trade agreements reduce barriers to a country's domestic exports and create a more stable and transparent trading environment (Whalley, 1998; Chandran, 2017). This makes it easier and cheaper for domestic exporters to access foreign markets (Mayer & Zignago, 2005). Trade agreements are also frequently used by countries as a means of pursuing foreign policy objectives (Baldwin, 1989). In this regard, the USA-Israel and USA-Jordan FTAs are examples of USA's utilisation of trade policy to achieve foreign policy objectives (Rosen, 2004). The USA's foreign policy interests in these countries and the region are more important than its trade and economic interests (Rosen, 2004; Zorob, 2018).

In historical context, even before the formation of the GATT in 1947, trade agreements have been prevalent for centuries (Culbertson, 1938; Winham, 1992). Throughout modern history, countries have secured and strengthened their trade relations through various trade arrangements (Dent, 2006). In general, this has enabled widening and deepening of international trade cooperation by reaching into new policy areas such as trade in services, foreign investment, intellectual property and government procurement (WTO, 2011b). Furthermore, of paramount importance is the fact that international trade has become progressively more open and less discriminatory. This is despite a wave of rising protectionism that has characterised the global trade and political environment in recent years (OECD, 2016).

Nevertheless, in quest of a freer international trading landscape, trading nations negotiate distinct trade agreements at multilateral, plurilateral, unilateral, regional and bilateral level. These trade agreements are discussed in the following sections.

2.6.1 Multilateral Trade Agreements (MTAs)

The WTO defines MTAs as non-discriminatory trade agreements between three or more countries (WTO, 2017a). The rules for a multilateral trading system were established by the General Agreement on Tariffs and Trade (GATT) through a series of rounds of multilateral trade negotiations (WTO, 2014b). The contracting parties of the GATT organised eight multilateral trade negotiation rounds²⁹ from 1947 to 1994. The initial rounds dealt primarily with the reduction of tariffs on goods, but other concerns such as non-tariff barriers and anti-dumping were incorporated in later rounds (Krugman *et al.*, 2012). For instance, a section on development and a GATT Anti-Dumping Agreement were brought about by the Kennedy Round in the mid-1960s. Furthermore, the Tokyo Round during the 1970s was the earliest main attempt to confront non-tariff trade barriers and to transform the multilateral trading system (Graham, 1979).

The most extensive of the GATT multilateral trade negotiation rounds³⁰ was the Uruguay Round (Preeg, 2012). This was the eighth and last round under the GATT. According to Krugman *et al.* (2012), extensive publicity that surrounded the Uruguay Round, and considerable controversy surrounding the global trading system since then, have concentrated on the round's establishment of a new organisation, the WTO, and the institution of a new set of MTAs. In 1995, the WTO, which administers the multilateral trading system, replaced the impromptu secretariat that had overseen the GATT (Lloyd, 1997; Barton *et al.*, 2008).

Not overlooking that GATT was temporary with a narrow course of action, its accomplishment in inspiring and safeguarding the liberalisation of much of the global trade for over 47 years is undisputable (Anderson, 2016). Sustained reductions in tariffs alone assisted in stimulating high global trade growth rates, averaging approximately 8% per annum, during the 1950s and 1960s (WTO, 2013:52). Additionally, the momentum of trade liberalisation assisted in ensuring that global trade growth consistently surpassed production growth during the course of the GATT years (Maddison, 2006). This revealed expanding abilities of countries to trade with each other and to

²⁹ GATT multilateral trade negotiation rounds: Geneva (1947); Annecy (1949); Torquay (1951); Geneva (1956); Dillon (1960-1961); Kennedy (1964-1967); Tokyo (1973-1979); and Uruguay (1986-1994).

³⁰ Subjects covered under the Uruguay Round include (Preeg, 2012): tariffs; Non-Tariff Measures (NTMs); rules; services; intellectual property; dispute settlement; textiles; agriculture; and creation of the WTO.

reap the gains of free trade. In fact, the influx of new members during the Uruguay Round³¹ confirmed that the multilateral trading system was acknowledged as an anchor for development and an instrument of economic and trade transformation (Lawrence, 2002).

Following the inception of the WTO in 1995, its first MC took place in December 1996 in Singapore (WTO, 1996). Since then, the WTO has concluded a total of 11 MCs with the 12th MC scheduled to take place in December 2020 in Astana, Kazakhstan (see the WTO multilateral trade negotiations timeline in Figure 2.3). At the WTO's fourth MC held in Doha, Qatar, in November 2001, a new major multilateral trade negotiation round, the Doha Round³², was officially launched (WTO, 2015a). This is the only multilateral trade negotiation round that has been undertaken under the auspices of the WTO. In other words, the Doha Round is the ninth multilateral trade negotiation round since the WWII and the first round since the WTO inherited the multilateral trading system (WTO, 2018c).

The primary objective of the Doha Round was to accomplish major transformation of the global trading system through the institution of lower trade barriers and revised multilateral trade rules (Federation of German Industries [BDI], 2016). All the WTO Member States (i.e. 157 in 2001)³³ participated in the Doha talks. The work programme covered 20 trade subjects including: agriculture; non-agricultural market access; services; trade facilitation; rules; geographical indications; other intellectual property issues; and dispute settlement (UNCTAD, 2007).

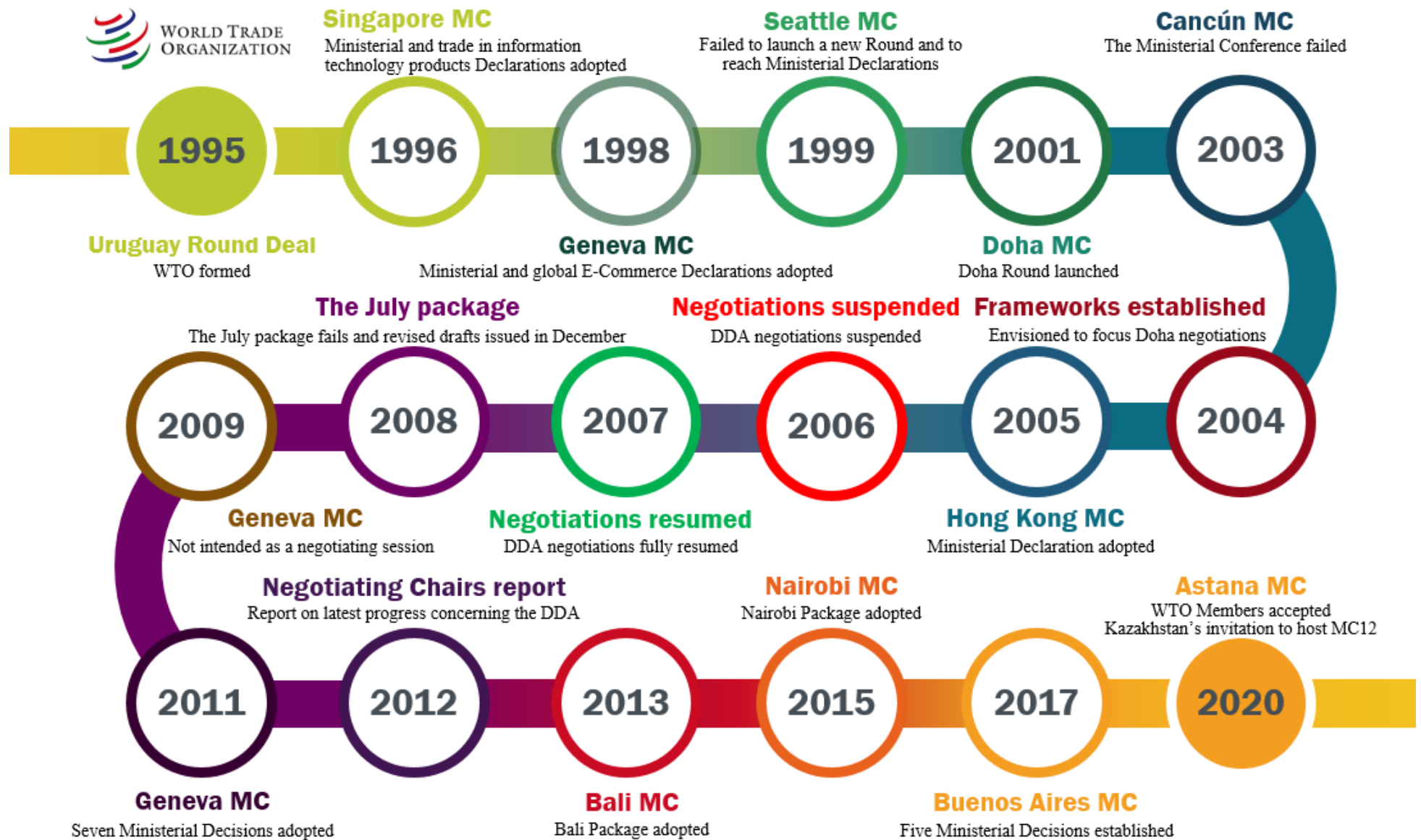
The exchanges at the 11th WTO MC held from the 10th to the 13th of December 2017 in Buenos Aires, Argentina, revealed more of the scope and depth of divergences among WTO members (WTO, 2018d). For instance, the USA opposed any mention of the DDA and argued that there was no shared understanding of development. Many developed countries, especially the USA, support a paradigm that asserts that the way to enhance development is that all countries abide by the same set of rules, on the same level and standard, and with very little or no differentiation (Davies, 2018). These countries argue that some developing countries see development only as exemptions from rules and that it is incorrect to see rules as impediments to development (Laird, 2000). The majority of developing countries, on the other hand, support a paradigm that it is absolutely necessary and imperative that developing countries have an opportunity to industrialise, diversify and move up the value chain and not remain as producers and exporters of primary commodities (AfDB, 2017).

³¹ In addition to the 102 members that participated in the Tokyo Round, 21 new members participated in the Uruguay Round (Lawrence, 2002).

³² The Doha Round is also semi-officially known as the Doha Development Agenda (DDA). This follows its fundamental objective of improving the trading prospects of developing countries (WTO, 2015a).

³³ Membership of the WTO consists of 164 Member States since the admission of Afghanistan on the 29th of July 2016 (WTO, 2019c).

Figure 2.3: The WTO multilateral trade negotiations timeline



Source: Authors own figure

The developing countries' paradigm requires that developing countries have access to the very same apparatus that the developed countries used in their journey to become developed (Davies, 2018). In this regard, developing countries need a differentiated set of obligations, a differentiated set of rules that deal directly with the impediments of development (Josling, 2006). This is extremely imperative in terms of the policy latitude for industrialisation.

Nevertheless, given the failure to conclude a comprehensive Doha deal and other diverse concerns that the WTO is facing at the moment, the organisation acknowledges that multilateralism remains the fundamental approach to trade liberalisation. In fact, the WTO believes that the economic case for a free trade system centred on multilaterally agreed rules and procedures depends fundamentally on commercial common sense and is simple enough (WTO, 2017b).³⁴ In addition, it is also reinforced by evidence, that is, the experience of global economic and trade growth since WWII (WTO, 2017b). For instance, tariffs imposed on industrial goods have steeply declined and currently average beneath 5% in industrialised countries. Throughout the first two and half decades after the WWII, global economic growth averaged approximately 5% per annum, a significantly high rate that was partially the consequence of weakening trade barriers. Likewise, global trade grew even more rapidly, averaging about 8% per annum during the same period (WTO, 2017b).

The loss of momentum in the multilateral trading system has sparked renewed debate over the merits of this renowned approach to liberalising trade (Irwin, 1993; Preeg, 2012). As alluded to in Section 1.1.1, multilateralism has been the dominant approach to liberalise trade since the inception of the WTO. However, increased frustration with the multilateral trading system has been witnessed in recent years. This is evidenced by the delay in completion of the Doha Round and the growing trend in favour of bilateralism and regionalism.

2.6.2 Bilateral and regional trade agreements

The WTO does not distinguish between BTAs and RTAs (WTO, 2017a). In this study, a distinction is made between these two types of trade agreements. BTAs are defined as reciprocal trade agreements between two trading partners (Menon, 2007).³⁵ Only two entities are involved and there are no geographical or regional restrictions on membership. Likewise, RTAs are defined as

³⁴ Confronting multilateralism is not a sign of strength. Rather, it is a symptom of the weakness of intellect. It portrays an inability in understanding a complex and interconnected world (Rouhani, 2018).

³⁵ BTAs can be negotiated and concluded between two entities, which can be countries or regional blocs or a combination of the two. BTAs include: Preferential Trade Agreements (PTAs), in which preferential access is granted to certain products from the Member States; and FTAs, in which trade restrictions among Member States are eliminated (Menon, 2007).

reciprocal trade agreements between two or more trading partners in the same region (Williams, 2018).³⁶ In this case, there is certainly a geographical or regional restriction on membership.

BTAs and RTAs are not a new phenomenon. In fact, the majority of the binding trade agreements currently notified to the WTO and in force are BTAs (WTO, 2018e). According to Azevêdo (2014), it can be argued that the GATT was perhaps a multilateralisation of the system of reciprocal trade agreements that countries and regions had been pursuing for several years earlier. From the perspective of developing countries, particularly in Latin America and Africa, the ancestry of regionalism may possibly be traced back to the colonial era. The motivation for regional cooperation was encouraged by the notion of dependency as an approach of achieving economic and political freedom (Ndayi, 2009).

Nevertheless, the central economic aim of both BTAs and RTAs is to diminish trade barriers and liberalise trade and investment rules between two or more countries (Mayer & Zignago, 2005). This expands market access, which is crucial for export growth, foreign export earnings, and investment (Pal, 2008). However, BTAs and RTAs have grown more rapidly since the inception of WTO and they have become a noticeable feature of international trade (WTO, 2017a). As already alluded to earlier, this may be partly attributed to frustrations with the multilateral trade negotiations as evidenced by the delay in conclusion of the Doha Round of talks. In addition, the negotiation and implementation of both BTAs and RTAs are quicker and easier in comparison to MTAs.

Some members of the WTO, especially developed countries such as the USA, believe that new “approaches” or “pathways” are required to achieve meaningful outcomes in multilateral trade negotiations (Adlung & Mamdouh, 2017; Davies, 2018). This is despite an apparent absence of consensus or clear understanding on what these “new approaches” or “pathways” are.

However, throughout the world, many governments have signed, are negotiating, or contemplating to negotiate new BTAs and RTAs. Since 1948 to date, a total of 484 RTAs have been notified to the GATT/WTO and are still in force (see Table 2.1 below). It is clear in Table 2.1 that of the 484 RTAs notified to the GATT/WTO, 58 RTAs were notified under the Enabling Clause (EnC)³⁷,

³⁶ The WTO (2018e) does not distinguish between BTAs and RTAs. RTAs include: PTAs, in which members reduces the normal tariffs on some imported goods; FTAs, in which members facilitate trade and eliminate trade barriers; Customs Union (CU)s, in which trade restrictions among members are eliminated and a common external tariff is maintained; and Common Markets (CMs), in which members eliminate trade restrictions amongst themselves, maintain a common external tariff, and allow free movement of labour and physical capital within the trading bloc.

³⁷ The EnC, officially called the “Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries”, was adopted under GATT in 1979 and enables developed members to give differential and more favourable treatment to developing countries. It is the WTO legal basis for Generalised System of Preferences (GSP), RTAs, and the Global System of Trade Preferences (GSTP), under which a number of developing countries exchange trade concessions among themselves (WTO, 2018f).

while 161 RTAs were notified under General Agreement on Trade in Services (GATS) Article V and 265 RTAs were notified under GATT Article XXIV.³⁸ FTAs constitute approximately 54% of the total RTAs notified to the GATT/WTO that are still in force. Currently, there are 22 PSAs notified to the WTO under the EnC.

Table 2.1: RTAs in force notified to the GATT/WTO, categorised by type of agreement

	Enabling Clause	GATS Article V	GATT Article XXIV	Grand Total
Customs Union	7		11	18
Customs Union Accession	2		10	12
Economic Integration Agreement		154		154
Economic Integration Agreement Accession		7		7
Free Trade Agreement	17		241	258
Free Trade Agreement Accession	1		3	4
Partial Scope Agreement	29			29
Partial Scope Agreement Accession	2			2
Grand total	58	161	265	484

Note: WTO statistics on RTAs are based on notification requirements rather than on physical number of RTAs.³⁹

Source: WTO (2019d)

The global growth of RTAs since 1948 to 2018 is shown in Figure 2.4. More RTAs were notified annually from 1992 to 2016 and the trend continued growing even after the WTO came into existence on the 1st of January 1995. In fact, approximately 368 RTAs in force were notified to the WTO after its inception in 1995, while 116 RTAs in force were notified under the GATT.

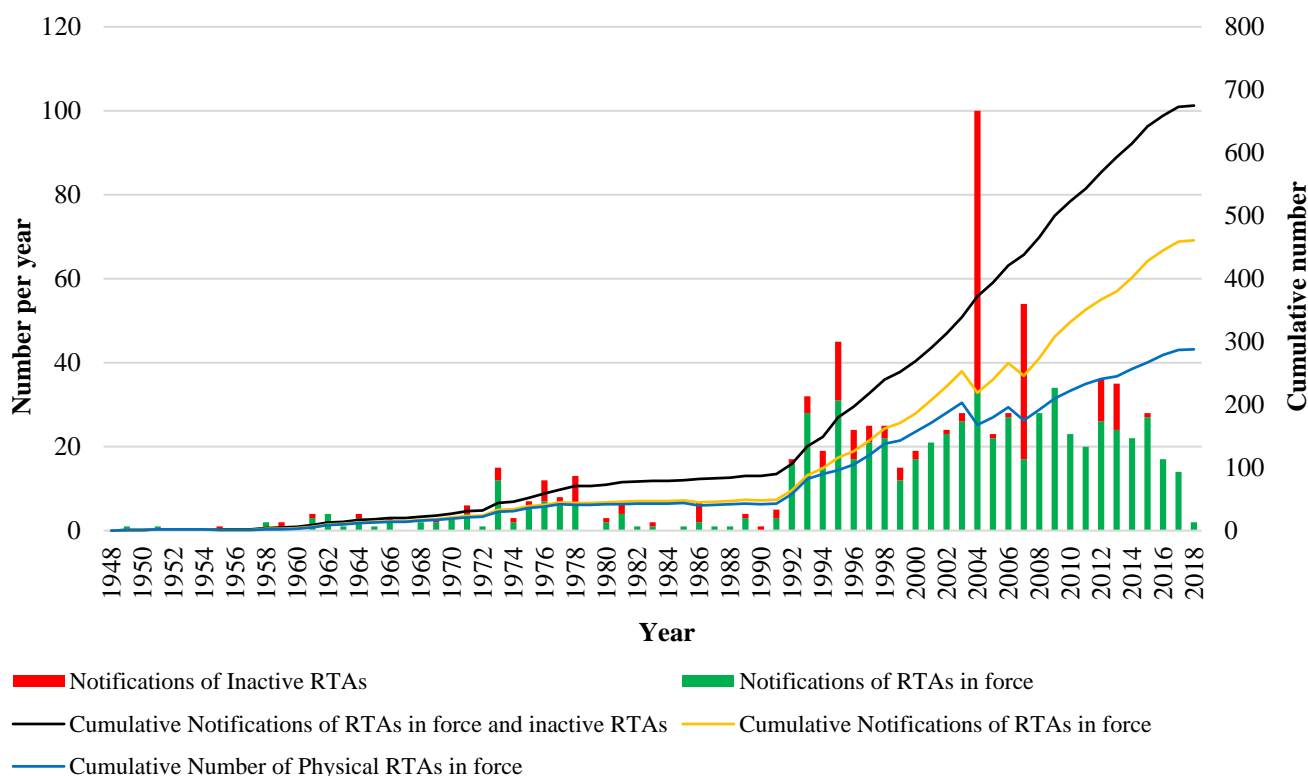
There were more notifications of inactive RTAs in 2004. It is unknown whether this has anything to do with China becoming a member of the WTO in 2003. When considering both active and inactive RTAs, a total of 675 RTAs have been notified to the GATT/WTO. This entails that 214 of the 675 RTAs notified to the GATT/WTO have, at the moment, become inactive.

³⁸ GATS Article V: Economic Integration.

GATT Article XXIV: Territorial Application, Frontier Traffic, CUs and FTAs.

³⁹ Thus, for an RTA that includes both goods and services is counted as two notifications (one for goods and the other for services), even though it is physically one RTA (WTO, 2019d).

Figure 2.4: Global growth of RTAs from 1948 to 2018



Note: Notifications of RTAs: goods, services & accessions to an RTA are counted separately. Physical RTAs: goods, services & accessions to an RTA are counted together.

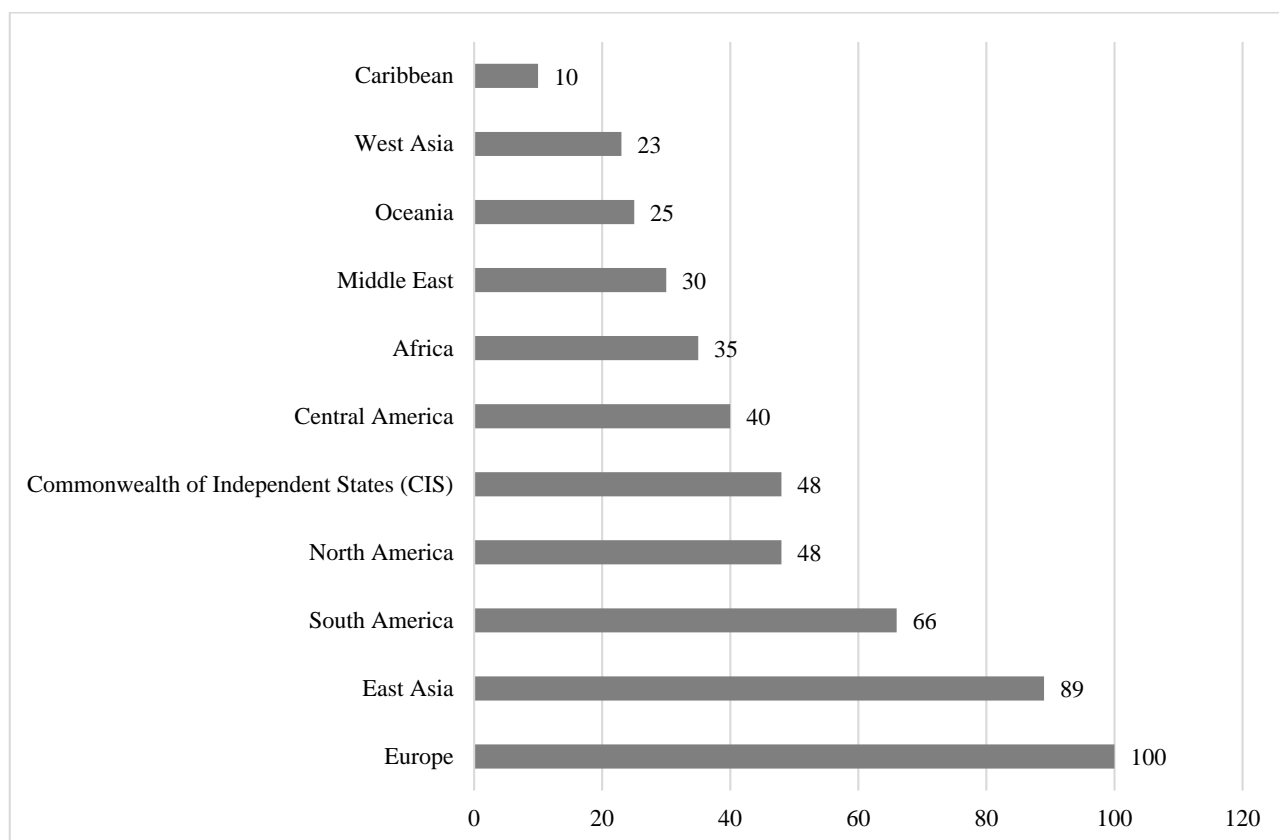
Source: WTO (2019d)

The participation of distinct regions in physical RTAs in force is shown in Figure 2.5. Europe participates in a total of 100 active physical RTAs, while East Asia participates in a total of 89 active physical RTAs. Together, Europe and East Asia participate in approximately 37% of all physical RTAs currently in force. The African region participates in a total of 35 active physical RTAs and that translates to a participation in roughly 7% of all physical RTAs in force. With the exception of Europe and East Asia, Africa’s participation in active physical RTAs is smaller relative to the regions of South America (13%), Commonwealth of Independent States (CIS, 9%), North America (9%) and Central America (8%). Nevertheless, the participation of Africa is higher than that of Middle-East (6%), Oceania (5%), West Asia (5%), and much higher than that of the Caribbean (2%).

As mentioned in Section 2.4, consensus and the single-undertaking principle are the fundamental elements of the WTO decision-making process. Hence, all aspects of a WTO negotiating round have to be acceptable to all the WTO members before the negotiating round can be concluded (WTO, 2002). Consequently, it is more likely that reaching consensus amongst a lengthened and more diverse WTO membership will unsurprisingly be discouraged by coordination challenges

(MacMillan, 2014). This lack of consensus among the WTO members has partially led to the proliferation of BTAs and RTAs.

Figure 2.5: Regional participation in physical RTAs currently in force



Note: The composition of regions may be found in the RTA database User Guide⁴⁰. RTAs involving countries or territories in two (or more) regions are counted more than once.

Source: WTO (2019d)

Even though the tendency towards bilateralism and regionalism is growing, BTAs and RTAs cannot substitute the multilateral trading system (Azevêdo, 2014). In fact, BTA and RTA initiatives reveal that the WTO members are continuing to liberalise trade. However, disintegration of the trading system cannot be a substitute for the benefits of negotiating a multilateral trade deal; neither do plurilateral and unilateral trade agreements (discussed in Section 2.6.3) replace the WTO's multilateral trading system (Azevêdo, 2014). Instead, they complement it (Nakatomi, 2013).

2.6.3 Plurilateral and unilateral trade agreements

International political economy literature and even the WTO rules do not differentiate between bilateralism, regionalism and plurilateralism (Ndayi, 2009). In fact, BTAs and RTAs may be

⁴⁰ http://rtais.wto.org/userguide/User%20Guide_Eng.pdf.

viewed as country-based plurilateral agreements that are, in theory, necessary to significantly liberalise all trade and have extensive sectorial coverage (Nakatomi, 2013). Although not given enough attention in international trade literature, plurilateralism is not a totally peculiar or new occurrence. It is not unfamiliar for countries to continuously converge in minor groups to plan, negotiate or influence inside or outside multilateral structures (WTO, 2012a).

According to the WTO (2012b), plurilateralism is a tactic for countries eager to proceed with the process of liberalising trade. On the other hand, plurilateralism signifies a response to the failure of the multilateral trading system. In other words, some countries are reluctant to progress with the trade liberalisation process (WTO, 2012b). In general, plurilaterals can be considered as either inclusive or exclusive (Adlung & Mamdouh, 2017). Inclusive plurilaterals are basically implemented on a MFN-basis and consequently demand conditional, unilateral, sectoral liberalisation. Conversely, exclusive plurilaterals include liberalisation only for the participating members and those members signing up to the succeeding agreement (Draper & Dube, 2013).

Deadlock in the DDA negotiations witnessed in the past has arguably led to the belief, among some WTO members, that plurilateral trade agreements are MTAs of a special type (Woolcock, 2014). For instance, the apparent lack of progress across broad areas of the DDA has drawn attention to the prospect of moderate trade negotiations, on a plurilateral basis, envisioned to endorse a commonly shared agenda amongst like-minded countries (Adlung & Mamdouh, 2017). In this regard, the Nairobi Ministerial Declaration acknowledges that agreements in plurilateral form were reached by some WTO members during the 10th WTO MC (WTO, 2015b).

Notwithstanding the benefits of plurilateralism within the context of trade liberalisation, utilising this approach to liberalising trade poses threats to multilateralism. For example, such agreements can be manipulated for protectionist purposes (Adlung & Mamdouh, 2017). In addition, they can also be used as an opportunity for power-based trade tactics, and as an avenue of avoiding reciprocal liberalisation efforts. However, the threats posed by plurilateral trade agreements are believed to be more acceptable if matched to the threats related with the status quo, that is, departure from the multilateral system and further proliferation of BTAs and RTAs (Draper & Dube, 2013; Adlung & Mamdouh, 2017).

Inclusive plurilateral trade agreements are comparable to unilateral trade agreements when viewed from non-member beneficiaries' standpoint. Unilateral trade agreements are one of the most significant trade policy mechanisms offered by developed countries to encourage developing country exports (Cirera & Alfieri, 2012). By definition, unilateral trade agreements are tariff concessions conferred to developing countries by developed countries without requiring reciprocity

from the beneficiary country. As pointed out in Hoekman and Ozden (2005), the basis of this type of trade arrangements is merited by numerous factors. In this regard, the notion of Special and Differential Treatment (SDT)⁴¹ for developing nations in MTAs, forms the main justification of unilateral trade agreements.

The GSP, introduced in 1971 under the auspices of UNCTAD, rationalised unilateral trade arrangements (UNCTAD, 2018b). GATT articles were amended in order to allow for discrimination and since then, many other unilateral trade arrangements have emerged. For example, the Lomé Conventions rationalised in 2000 under the Cotonou Agreement, granted by EU to former Africa, Caribbean, and Pacific (ACP) colonies in 1975; the expansion of the GSP with GSP-plus and the Everything But Arms (EBA) initiatives granted to Least Developed Countries (LDCs) by the EU; and the AGOA granted by the USA to AGOA eligible SSA countries.

Product coverage under unilateral trade agreements varies considerably, ranging from the near comprehensive coverage granted by EBA to approximately 6500 tariff lines covered under AGOA (Winant, 2017; EC, 2017b). Country coverage also significantly differs, generating discrimination between developing countries and LDCs, in some cases (Hoekman & Ozden, 2005). This has generated some degree of controversy in the framework of unilateral trade arrangements. For instance, commodity-specific provisions of the Cotonou Agreement (excluding banana and sugar) have been frequently confronted in the WTO (Gerrick, 2004). Consequently, EU and ACP countries are negotiating replacing the Cotonou Agreement with reciprocal FTAs, the Economic Partnership Agreements (EPAs) (EC, 2018). Other divergences encountered under unilateral trade agreements include: lack of a legislated dispute resolution mechanism (Prinsloo & Ncube, 2016); weaker negotiating position occupied by beneficiary countries during the determination of the instruments of agreement (Onguglo, 1999); and rules on trade protection measures, especially, non-tariff barriers such as rules of origin (Hoekman & Ozden, 2005).

In addition to the divergences mentioned above, unilateral trade agreements are often not offered without conditions. As stated in Onguglo (1999), it is almost always the case that the beneficiary countries of non-reciprocal preferential trade arrangements have to encounter certain conditions, often non-economic, to be selected as beneficiaries and to uphold such a status (see Section 3.2.3 for AGOA eligibility criteria). Hence, unilateral trade agreements can be used by developed countries as foreign policy mechanisms aimed at achieving foreign policy and tactical objectives that are often not related to international trade and commerce (Feinberg, 2003; Rosen, 2004). In

⁴¹ The SDT principle emanates from the idea of infant industry protection that was widely influential in the 1950s and 1960s (Westphal, 1981).

such circumstances, the benefactor's foreign policy interests in the beneficiary countries are more important than its trade and economic interests (Rosen, 2004; Zorob, 2018).

The trade agreements discussed in this section are all aimed at expanding market access, through trade liberalisation, which is crucial for export growth, foreign export earnings, and investment (Pal, 2008). In fact, empirical evidence suggests that enhanced market access improves the possibility of survival of trade relationships (Fugazza & McLaren, 2013). The following section consists of a discussion of literature relating to market access and its benefits.

2.7 Market access and its benefits

Market access refers to the openness of a country's markets to goods and services originating from other countries. In the last decade, market access conditions have increasingly been affected by trade agreements, more especially BTAs and RTAs (Pal, 2008). Trade agreements generally provide trading partners with lower tariffs and as a result, different tariff rates are applied to the same product, depending on its origin (Preeg, 2012). At multilateral level, tariff commitments for goods are set out in each member's schedules of concessions on goods (WTO, 2018g). The schedules represent commitments not to apply tariffs above the listed rates (WTO, 2018h). In other words, the tariff rates are "bound".

From an exporter's perspective, market access depends not only on the disadvantages that exporters face in comparison to domestic producers in the importing market, but also on the relative advantages or disadvantages that exporters have over other external competitors (Aggarwal, 2004). In this regard, tariffs affect both of these components. In terms of tariffs, the disadvantage faced by exporters *versus* the domestic competitors in the importing market is simply given by the tariff applied to the specific good, while the advantage or disadvantage faced by exporters *versus* other external competitors is given by the preferential margin (Fugazza & Nicita, 2011). In practice, the preferential margin⁴² determines the strength of the preferential market access. The larger the preferential margin, the greater the advantage is of a given country's exporters with respect to foreign competitors (Fugazza & McLaren, 2013).

It is not uncommon that developed countries often grant unilateral preferential market access to developing countries in order to facilitate their economic growth and development by enhancing their market access in the benefactor's market (Cirera & Alfieri, 2012). Examples of such unilateral preferential market access include the GSP (see Section 3.2.2) and AGOA (see Section 3.2.3)

⁴² Preferential margin is the absolute difference between the MFN tariff and the preferential tariff (Carpenter & Lendle, 2010).

provided by the USA. Most of SSA countries, including SACU members, access the USA market via the GSP and AGOA (Legal Information Institute [LII], 2018; Trade Law Centre [TRALAC], 2018a). Similar to unilateral preferential market access, BTAs and RTAs are a common form of reciprocal preferential market access in which reduced or no tariffs are applied to products originating within Member States (Williams, 2018). The main aim of such trade agreements is to promote trade and economic cooperation. However, by providing some trading partners with a lower tariff, BTAs and RTAs inevitably discriminate against those trading partners outside the trade agreement (Hoekman *et al.*, 2008). This consequently lead to trade diversion, which is unfavourable in terms of welfare effects (Viner, 1950; Burfisher, 2017).

Improved market access is crucial in international trade initiatives. In fact, market size is of paramount importance for both innovation and productivity (Huggins & Thompson, 2017). Consequently, better foreign market access will inspire firms to simultaneously export and invest in expanding productivity (Fugazza & McLaren, 2013). Lileeva and Trefler (2010) examine this observation using the responses of Canadian factories to the elimination of USA tariffs. Unique “factory-specific” tariff cuts served as an instrument for stimulating changes in exporting. They find that Canadian factories that were encouraged by the tariff cuts to start exporting or to export more: increased their labour productivity; engaged in more product innovation; and experienced higher adoption rates for advanced manufacturing technologies.

Even the overall results found in Fugazza and Nicita (2011) indicate that preferential market access is valuable in terms of export performance. In fact, the value of preferential market access, in terms of export performance, depends not only on the direct benefits provided by preferential market access, but also on the benefits provided with respect to other competitors. In statistical terms, Fugazza and Nicita (2011:21) find that a decline of one percentage point in terms of the overall tariff faced by exports is reflected in an average increase by almost 0.7% in bilateral trade. Similarly, for every percentage point increase in relative market access, trade increases by slightly more than 0.3%. Hence, augmenting export performance through better tariff-wise market access conditions significantly improves the sustainability of trade relationships.

Fugazza and McLaren (2013) empirically assessed the impact of changes in tariff-wise market access conditions for Peru using firm-level customs data over the period 2002 to 2008. Based on probit estimations with random effects, they find that better market access conditions increase the probability of survival of trade relationships. In addition, Fugazza and McLaren (2013) also observe the predominance of relative market access conditions in influencing export performance. Their results further reveal that approximately 20% of the increases in exports to Mercosur markets

observed during the 2002 to 2008 period are due to improvements in the effective preference margin perceived by Peruvian firms.

Export rivalry in the USA import market is considerably intense (Mayer *et al.*, 2014). Accordingly, a very small increase in the USA tariffs results in a significant decline in the market share of exporters. However, tariff barriers affect some countries more than others (Berensmann & Brand, 2011). In fact, LDCs and developing countries are the frequently affected country groupings since their exports are concentrated in low-skill and/or labour-intensive products that advanced countries often protect (Haveman & Shatz, 2004). For instance, the USA was previously reported to collect roughly 15 cents in tariff revenue per dollar of imports from Bangladesh, in contrast to one cent per dollar of imports from certain major western European countries (Elliott, 2009; McDonald, 2017). This reveals the significance, especially for LDCs and developing countries, of enhancing market access in the USA through negotiating trade arrangements of reciprocal or unilateral nature.

Since the theoretical basis of this study has been established and various international trade and trade negotiation literature related to this study has been discussed, a summary is provided in Section 2.8 to conclude this chapter.

2.8 Summary

The theoretical basis of this study is established in this chapter by providing a theoretical framework and a review of literature relating to free trade and the international political economy, trade negotiations, trade negotiation and trade policy analysis capacity constraints, trade agreements, and market access. It is acknowledged in this chapter that international trade has increasingly become an important part of almost all the nations around the globe. In addition, international trade has been utilised as a significant mechanism for economic modernisation. Therefore, advocates of free trade perceive international trade as a central engine of economic growth and development. In fact, promoting freer international trade is not only favourable to stimulating economic growth, but is also valuable to the expansion of an open economy.

The preliminary attempts to analyse economic challenges appear in the literatures of the ancient Greeks. This entails that economic activities have characterised human culture since the genesis of civilisation. However, there was little formal analysis of international trade activities until the development of merchant capitalism in Western Europe during the 15th century. This saw the rise of Mercantilists, Physiocrats, and Classical economists, among others, and led to the development of classical international trade theories, which laid the foundation of free trade as it is known today (see Section 2.2).

Although trade liberalisation has partially been an outcome of countries unilaterally reducing their tariffs, much of trade liberalisation following the WWII has been an outcome of trade agreements, which are achievable through trade negotiations. Hence, it is in theories that form the theoretical foundations of trade agreements and trade negotiations where this study is theoretically underpinned.

While it is not a secret that free trade is beneficial for economic growth and prosperity, occurrences in the international political economy have profound effects on free trade policy. Trade is at all times political. Consequently, the economics of trade cannot be alienated from its political facets. Besides drawing nations together, trade also creates a great deal of rigidity and conflict between and amongst various nations. However, cooperation (trade liberalisation) is more beneficial in contrast to protectionism. In fact, protectionist tendencies generate unfavourable effects for both the imposing country and the receiving country. Therefore, the proliferation of international trade under the auspices of the WTO has led to considerable expansion of trade liberalisation in the past decades.

Countries engage in trade negotiations, which follow a systematic process discussed in Section 2.4.1, for numerous reasons, which include economic, political and strategic motives. However, developing and LCDs are commonly constrained by inadequate resources, insufficient capacity, and lack of expertise (see Section 2.5). Despite these capacity constraints, in recent years, countries progressively play a part in multilateral trade negotiations, while simultaneously concluding BTAs and/or RTAs. What is certain is that they undoubtedly anticipate benefits in either circumstance. In some instances, countries negotiate and conclude trade agreements of plurilateral and unilateral nature. However, a comparison of multilateral and other forms of trade negotiations reveals that multilateral trade negotiations possess several merits over the other types of trade negotiations.

Even though the trend towards bilateralism and regionalism has been growing in recent years, the WTO is of the view that other forms of trade liberalisation cannot replace the multilateral trading system. Instead of replacing multilateralism, these approaches to trade liberalisation should complement it. However, it should be acknowledged that they represent alternative trade policy options to multilateralism. In fact, almost every member of the WTO, including SACU Member States and the USA, is also a member of at least one trade agreement outside the multilateral system. The primary aim of such agreements is to enhance market access through the elimination of trade and investment barriers. Hence, the following chapter provides application literature by discussing literature relating to SACU-USA trade relations as well as the trade policies of both SACU and the USA.

CHAPTER 3: OVERVIEW OF SACU-USA TRADE RELATIONS AND THE TRADE POLICY OF SACU AND THE USA

3.1 Introduction

As established in previous chapters, the proposition that free trade among countries enhances overall economic welfare is overwhelmingly acknowledged in economic and international trade literature (Irwin, 1996). However, free trade is only possible through trade agreements, which are an outcome of trade negotiations. Therefore, trading nations, SACU members and the USA included, negotiate and conclude trade agreements at both multilateral and non-multilateral level. The primary motive of participating in such trade agreements is to improve foreign market access by eliminating trade and investment barriers (Pal, 2008). In fact, improved market access conditions have the ability to augment the sustainability of trade relationships (Fugazza & Nicita, 2011).

This chapter provides a discussion of: SACU-USA trade relations in Section 3.2; an overview of SACU trade policy in Section 3.3; and an overview of the USA trade policy in Section 3.4. The chapter is concluded with a summary in Section 3.5.

3.2 SACU-USA trade relations

SACU, which was established in 1910, is the oldest existing Customs Union (CU) in the world (SACU, 2008). Over the years, SACU has laid a concrete foundation for free trade through the advancement of regional integration and extensively instituting a range of internal economic and trade policy reforms aimed at liberalising trade (WTO, 2015c). The USA is an important traditional trading partner for SACU, from both an import and export perspective.

At multilateral level, both SACU members and the USA are members of the WTO. Accordingly, the trade relations between SACU and the USA are primarily governed by the WTO's MFN principle. However, SACU and the USA's trade relations are also governed by two unilateral trade arrangements, namely the GSP and AGOA. The GSP, discussed in Section 3.2.2, is a unilateral trade preference, which is not legally binding upon the benefactors, granted under the EnC of the WTO (DTI, 2016). The USA offers the GSP to certain developing countries, including SACU countries. The USA also extends unilateral market access to eligible SSA countries, under AGOA (see Section 3.2.3).

SACU and the USA also have a Trade, Investment and Development Cooperation Agreement (TIDCA), discussed in Section 3.2.1, in place. However, TIDCA is merely a cooperative framework agreement and does not include any commitments on actual products or services traded. In fact,

TIDCA is a form of USA's Trade and Investment Framework Agreements (TIFAs), which establishes a strategic framework and principles for dialogue on trade and investment issues amongst the USA and signatory countries to the TIFAs (USTR, 2018a).

3.2.1 Trade, Investment and Development Cooperation Agreement (TIDCA)

TIDCA is a cooperative framework agreement between SACU and the USA signed on the 16th of July 2008 (SACU, 2008). The agreement establishes a forum for consultative discussions, cooperative work, and possible agreements on a wide range of trade issues, with a special focus on customs and trade facilitation, Technical Barriers to Trade (TBT), Sanitary and Phytosanitary Measures (SPS), and trade and investment promotion (USTR, 2016). In fact, it is designed to build on and potentially capture some of the progress made in the 2003 FTA negotiations between the USA and SACU. These negotiations were suspended in 2006 due to opposing views on the scope and level of ambition for the FTA (Brown *et al.*, 2006).

Ideally, the TIDCA helps to put in place fundamentals for any future FTA, which remains a longer-term objective for both the USA and SACU (USTR, 2016). It is imperative to note that the US-SACU TIDCA currently makes no provision for any tariff eliminations (DTI, 2016). The only provisions the USA and SACU would therefore be able to build upon are the strong relations between the two sides and the existing cooperation provisions in TIDCA.

3.2.2 Generalised System of Preferences (GSP)

The GSP is a unilateral trade preference, which is not legally binding upon the benefactors, granted under the EnC of the WTO (DTI, 2016; EC, 2017c). Preference-giving countries unilaterally determine the products that are included in their GSP schemes. The main objective of the GSP is to empower developing countries to enhance their economic conditions and integration into the multilateral trading system through the granting of preferential access to participating developed countries markets (Herz & Wagner, 2011). It is also used as a mechanism to promote the benefactors' values by supporting beneficiary countries advancement towards good governance and sustainable development (Bilal *et al.*, 2011).

SACU members are granted GSP preferences by Canada, the EU, Japan, Norway, Russia, Switzerland, Turkey and the USA (DTI, 2016). The products that originate from SACU qualify for preferential market access and the trade arrangements cover specified industrial and agricultural products (DTI, 2016; EC, 2017c).

In the case of the USA, the GSP is the country's largest and oldest trade preference programme. It was established by the USA's Trade Act of 1974 with the aim of promoting economic development by eliminating duties on thousands of products, mainly industrial, when imported from any of the 120 designated beneficiary countries and territories (LII, 2018).⁴³ In fact, the USA offers GSP to many developing countries in order for them to utilise trade as a tool to expand their economies and alleviate poverty. A total of 47 of the 48 SSA countries, including all SACU members, are currently GSP eligible (International Trade Administration [ITA], 2018).

In addition to stimulating economic growth and development in SACU and the developing world, GSP supports USA jobs and enhance the competitiveness of USA companies (USTR, 2018b). It also promotes American values by supporting beneficiary countries advancement towards affording worker rights to their citizens, enforcing intellectual property rights, and upholding the rule of law.

3.2.3 The African Growth and Opportunity Act (AGOA)

AGOA, on the other hand, is a USA Trade Act, enacted on 18 May 2000 as Public Law 106 of the 200th Congress. The aim of AGOA is to expand USA trade and investment with Sub-Saharan Africa (SSA) in order to stimulate economic growth, encourage economic integration, and facilitate SSA's integration into the global economy (USTR, 2014). The Act establishes the annual USA-SSA Economic Cooperation Forum, better known as the AGOA Forum, to promote advanced dialogue between USA and SSA countries on trade and investment related issues (Department of Agriculture, Forestry and Fisheries [DAFF], 2009a).

According to the United States Department of Commerce (USDC, 2016a), 40 SSA countries are granted unilateral market access by the USA, under AGOA, on AGOA eligible products (see Figure 3.1 for the mapping of AGOA beneficiary countries). AGOA extends duty and/or quota-free access to the USA market on roughly 2 000 Harmonised System (HS) product lines, in addition to 3 400 product lines under its aforementioned GSP programme as well as 3 800 product lines that are duty-free under the USA's MFN offering (Prinsloo, 2016; USDC, 2016a).

AGOA eligible products include items such as wine, apparel and footwear, a variety of agricultural products, certain motor vehicle components, chemicals, and steel (USDC, 2016a; AGOA, 2017a). SACU's main economy, South Africa, is currently utilising only about 165 USA-National Tariff Lines (NTLs) under AGOA (Winant, 2017).

⁴³ A total of 5 059 USA-NTLs are eligible for duty-free entry under GSP. However, 3 569 of the 5 059 USA-NTLs are eligible for all GSP beneficiaries, while 1 490 of the 5 059 USA-NTLs are eligible for only LDCs beneficiaries (USTR, 2018c).

Figure 3.1: Mapping of AGOA beneficiary countries



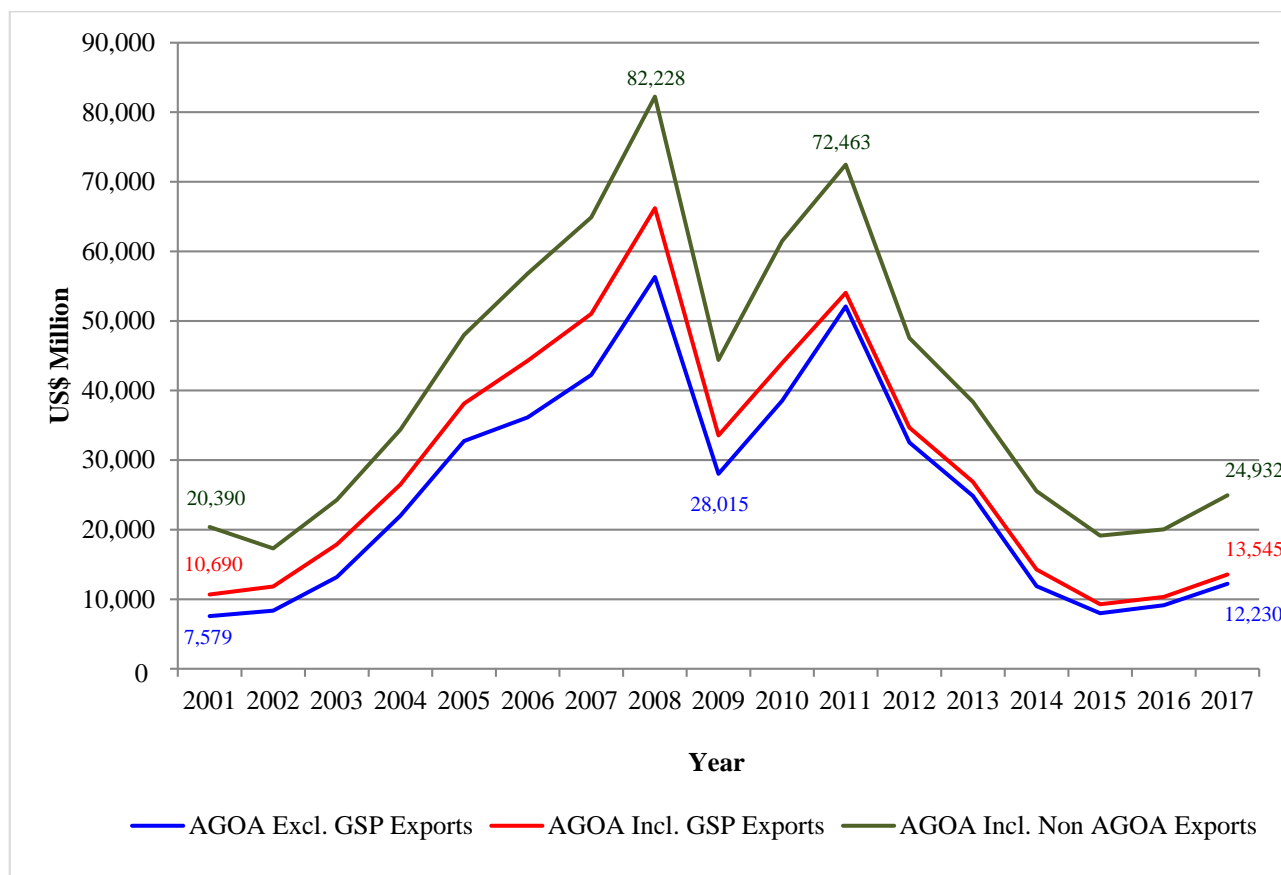
Source: Author's own figure based on TRALAC (2018a)

While AGOA is a non-reciprocal and unilateral agreement, it is not granted without conditions (Prinsloo, 2016). In order to benefit under AGOA, the USA requires SSA countries to comply with certain criteria, which include: progress toward establishing a market-based economy; economic policies aimed at alleviating poverty; upholding the rule of law; determinations to combat corruption; and safeguarding of globally accepted rights of workers (USTR, 2014; AGOA, 2017a). AGOA eligibility criteria also dictate removal of barriers to the USA trade and investment in AGOA beneficiary countries (Prinsloo, 2016; Winant, 2017).

The effect of AGOA on beneficiary countries has been substantial. Figure 3.2 reveals that between 2001 and 2008, exports from AGOA countries to the USA increased from US\$20 billion to US\$82 billion. In 2011 alone, AGOA beneficiary countries exports to the USA totalled US\$72 billion. This is despite a momentary decline in trade following the Global Financial Crisis (GFC) of 2008. However, the period between 2011 and 2017 has seen a continuous decline in AGOA beneficiary countries exports from US\$72 billion (in 2011) to US\$25 billion (in 2017). In 2016, AGOA countries exports reverted to the 2001 level of US\$20 billion, while AGOA exports including GSP (US\$10.3 billion) have declined below the 2001 level of US\$10.7 billion, despite reaching a peak of US\$66.2 billion in 2008. The severe decline in AGOA exports may be partly attributable to decline in oil exports from the African continent and decline in global commodity prices (Prinsloo, 2016).

It is apparent from Figure 3.2 that AGOA beneficiary countries are utilising more AGOA product lines than GSP product lines. The gap between AGOA exports, including GSP, and AGOA exports, excluding GSP, is narrow. The results can be explained by the nature of GSP since it covers more industrial products (Herz & Wagner, 2011). In fact, GSP programmes have been criticised for being too narrow in terms product coverage. This emanates from the exclusion of major African exports such as textiles, ceramics, and leather products, among others (Ornelas & Ritel, 2018).

Figure 3.2: All AGOA exports to the USA (excluding and including GSP) from 2001 to 2017

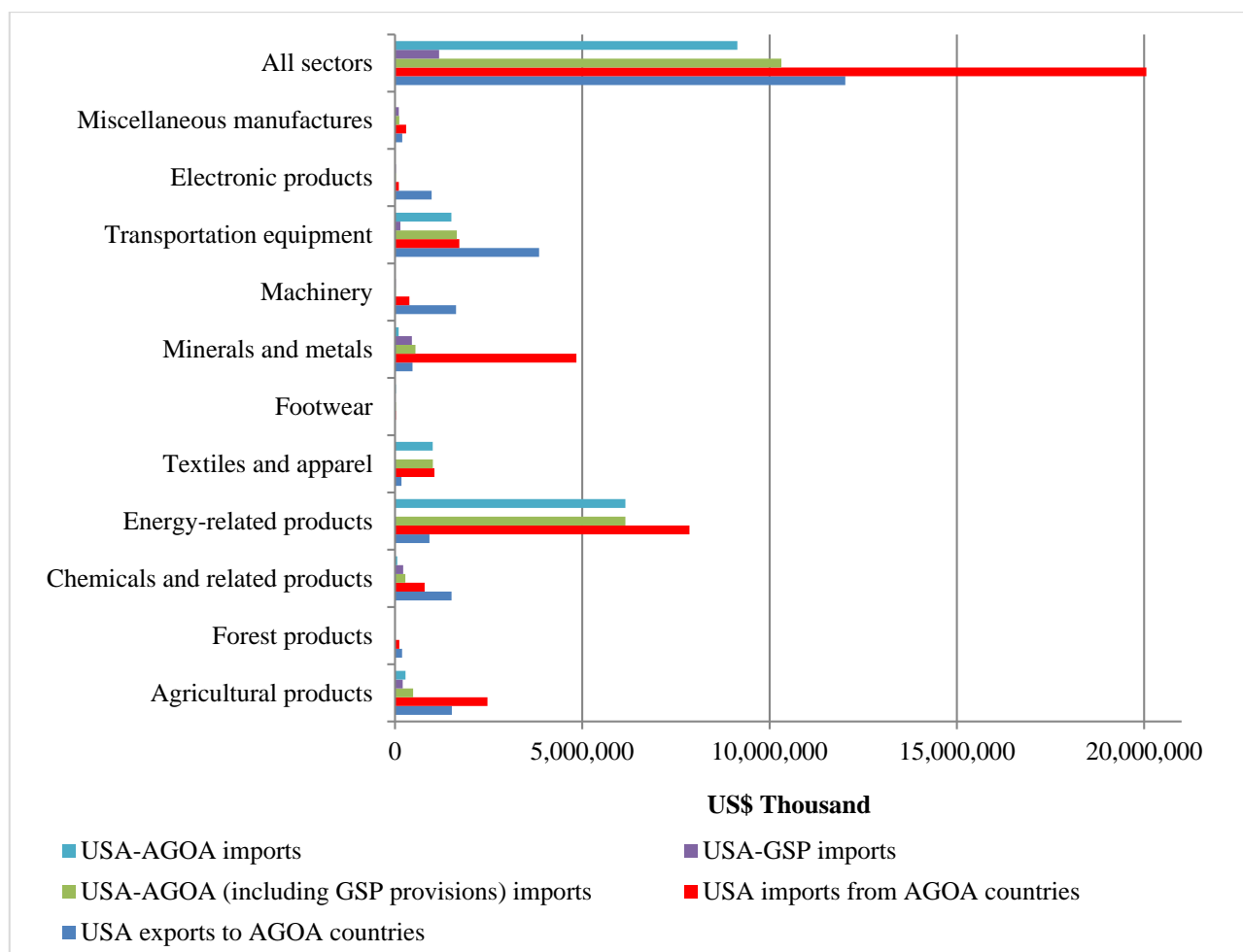


Source: Author's own figure based on data retrieved from AGOA (2017b)

Nevertheless, AGOA has continued to sustain non-oil exports and the diversification of SSA trade with the USA since its commencement in the year 2000 (USTR, 2016). Figure 3.3 shows AGOA beneficiaries' combined USA trade disaggregated by sector in 2017. Apart from energy-related products as well as minerals and metals exports, key AGOA (including GSP) exports include: transportation equipment (US\$1.65 billion in 2017); textiles and apparel (US\$1.01 billion); minerals and metals (US\$546.2 million); agricultural products (US\$485.8 million); chemicals and related products (US\$276.7 million); and miscellaneous manufactures (US\$115.4 million). While energy-related exports dominate exports for some of the AGOA beneficiary countries such as Angola and Nigeria (roughly 99% for both countries), non-oil producing nations such as Lesotho

and Kenya have successfully achieved growth of their exports through AGOA (Prinsloo, 2016). According to Prinsloo (2016), South Africa has also managed to leverage AGOA to grow its exports to the USA in sectors other than natural resources, especially the transportation equipment and chemicals and related products sectors (individually accounting for 45% and 11% of South Africa’s total AGOA plus GSP exports in 2017).

Figure 3.3: AGOA beneficiaries’ 2017 combined USA trade disaggregated by sector



Source: Author’s own figure based on data retrieved from AGOA (2017b)

After having been renewed in 2005 and 2010, AGOA was renewed again in 2015 for 10 years and it is due to expire in 2025 (USDC, 2016a). However, there is a possibility that AGOA may not be renewed after it expires in 2025. This is despite considerable benefits (discussed in Section 3.2.3.1) extended by the Trade Act to AGOA beneficiary countries and the entire SSA.

3.2.3.1 Benefits of AGOA

Since its inception, AGOA has been of value to both USA and the SSA. The legislation has helped accelerate two-way trade and job creation in the USA as well as in SSA (USTR, 2016). In the

period between 2001 and 2013, AGOA created approximately 100 000 jobs in the USA, and 1.65 million jobs (350 000 direct and 1.3 million indirect jobs) in SSA (AGOA, 2013). In South Africa alone, AGOA is estimated to have created over 62 000 jobs, over the same period, with the majority of the jobs having been created in the automotive and agricultural sectors (AGOA, 2013). The Act has also facilitated job creation in textile sectors of countries such as Lesotho and Kenya (AGOA, 2016).

AGOA has afforded SSA countries an opportunity to get unilateral duty and/or quota-free market access to the USA (DAFF, 2009a). Currently, more than 98% of USA imports from AGOA beneficiaries are duty and/or quota-free (USTR, 2016). Liberal market access under AGOA has enabled these countries to achieve a significant competitive advantage over non-AGOA countries that face tariffs in the USA market (AGOA, 2013). This holds especially with respect to certain products such as apparel, footwear, and agricultural products that are normally levied high MFN tariffs in the USA (DAFF, 2009a). Besides liberal market access into the USA through AGOA, some of the beneficiary countries also have access to USA credit and technical skills (USTR, 2016). In addition, all AGOA beneficiaries have some form of economic engagement with the USA utilising the AGOA Forum (DAFF, 2009a).

The AGOA eligibility conditions, particularly in respect to political administration, are essential as they place an obligation of institutional reinforcement on governments of SSA countries (USDC, 2016b). In line with the Trade Act, the USA Congress requires the President of the USA to conclude on an annual basis whether SSA countries are eligible for AGOA benefits based on advancement in accomplishing certain criteria (USTR, 2014; AGOA, 2017a). As alluded to earlier, the criteria include progress toward establishing a market-based economy, economic policies aimed at alleviating poverty, rule of law, efforts to combat corruption, and safeguarding of globally accepted rights of workers (USTR, 2014). If a beneficiary country fails to accomplish these criteria, its AGOA eligibility is revoked.

SSA countries are rich when viewed in the context of natural resources (AfDB, 2016b). For USA manufacturers, duty and/or quota-free imports of natural resources from AGOA beneficiary countries increase their competitiveness in both domestic and foreign markets (Felter, 2017). In fact, lower cost of production enjoyed by USA manufacturers is passed on to domestic and foreign consumers in the form of lower prices (De Loecker *et al.*, 2016). This, in turn, results in an increase in demand, which ultimately leads to economic growth and development in the USA. From a consumption standpoint, duty and/or quota-free imports from AGOA beneficiary countries benefit

American consumers through lower prices and by expanding the variety of products available for consumption (TRALAC, 2019).

As a result of duty and/or quota-free market access into the USA market, AGOA promotes export diversification in beneficiary countries (TRALAC, 2018b). Sustainable export diversification and value-added export production are needed if SSA is to develop sustainably and comprehensively (UNCTAD, 2018c). This is a goal that SSA's trade policy ought to advance with any trading partner, the USA included. Diversification also enables SSA producers to realise economies of scale along with other benefits of exporting such as increased foreign exchange earnings, greater utilisation of capacity, technological advancement and positive externalities generated by spill-over effects streaming into the non-export sector (El-Sakka & Al-Mutairi, 2000; Abou-Stait, 2005; Araujo & Soares, 2011).

As the basis of the USA's trade policy with SSA, AGOA has significantly contributed to the competitiveness and diversification of SSA's economies, created and sustained numerous jobs in the USA and across the African continent, and has improved global market opportunities and prosperity that complement the rise of the African continent (USTR, 2014). However, like any other trade arrangement, AGOA is not free from shortcomings. The shortcomings of AGOA are discussed in the following section.

3.2.3.2 *Drawbacks of AGOA*

Unlike other preferential trade arrangements, AGOA is a unilateral trade arrangement that allows developing countries in SSA additional market access in the USA (USDC, 2016a). The preferences under AGOA apply to USA imports and not to USA exports, so renewal of the non-reciprocal trade arrangement only requires action by the USA government. It is highly likely that the benefits enjoyed by AGOA beneficiary countries under the Act will end when AGOA expires in 2025. In the event that AGOA is not renewed in 2025, beneficiary countries will have to pursue other avenues to further their trade and investment relationships with the USA post-AGO. This includes having to negotiate bilaterally with the USA.

A key criticism against AGOA has been the Trade Act's lack of a regulatory framework to administer trade and investment disagreements under the umbrella of AGOA (Prinsloo & Ncube, 2016). According to Prinsloo and Ncube (2016), bearing in mind that AGOA is a unilateral duty and/or quota-free market access extended to certain SSA countries by the USA, the lack of a legislated dispute resolution mechanism is reasonable. Nevertheless, some of the ways in which AGOA has been used as a leverage to address the USA's own investment and trade barriers in SSA,

especially in South Africa during the “three meats”⁴⁴ dispute in 2016, has emphasised the necessity of a clearer course of action in the case of trade disputes under AGOA (South African Government News Agency [SAGNA], 2015; Prinsloo, 2016).

Over-dependence on AGOA benefits is not sustainable and holds potential disaster for some of the AGOA beneficiary economies, specifically the smaller ones (Botchie *et al.*, 2016). If they fail to diversify their export markets or their product offering to the USA, the unilateral market access enjoyed for 25 years under AGOA will see their economies closely entangled with one trading partner. This will result in a comparable outcome to that experienced by Madagascar and Eswatini after their AGOA beneficiary status was revoked (Prinsloo, 2016).

It is already mentioned that the USA Congress requires the President of the USA to determine AGOA eligibility on an annual basis (USTR, 2014; AGOA, 2017a). Although the requirements are good in terms of fostering responsibility on SSA governments, failure to fulfil the criteria means that the AGOA eligibility of the country in question can be revoked and in some cases reinstated when the beneficiary country affected comply with the eligibility conditions again. Classic examples in this regard include Senegal, Madagascar and Eswatini. However, the fact that AGOA eligibility can be revoked has a negative effect on investment decisions. Once a country becomes eligible for AGOA membership, it lures investors to specific sectors of its economy (Rolfe *et al.*, 2004). Fundamentally, firms engage in transaction-specific investments that are lucrative only to the scope that they export duty and/or quota-free to the USA market (Bartels *et al.*, 2009). Loss of AGOA eligibility entails that the particular investment becomes a sunk cost (Arkes & Blumer, 1985).

Currently, there is no formal mechanism for AGOA beneficiary countries to negotiate with the USA policymakers on AGOA concerns (Naumann, 2010). This might result in circumstances where amendments to the Trade Act fail to adequately integrate the consensus of the AGOA beneficiary countries (Kimenyi, 2009). Future engagements between the USA and AGOA beneficiary countries through the AGOA Forum can be more constructive if the SSA position is considered in advance and explicit positions are agreed upon by the respective governments (USDC, 2016a).

While AGOA is perceived as unilateral market access afforded to SSA beneficiary countries by the USA, it is arguably reciprocal market access in practice. This emanates from the fact that one of the criteria for AGOA eligibility dictates removal of barriers to USA trade and investment in AGOA beneficiary countries (Prinsloo, 2016; Winant, 2017). Failure to comply with this requirement

⁴⁴ Pork, beef and chicken.

means that the AGOA eligibility of the beneficiary country concerned is revoked (USTR, 2016). For instance, South Africa's agricultural benefits were nearly revoked in 2016 due to disputes over the 'three meats' (SAGNA, 2015).

As mentioned, the USA is one of SACU's largest traditional trading partners. In fact, the country featured in the top 10 export destinations of all SACU countries in 2017 (ITC, 2019). However, it is interesting to note that there is no formal agreement in place that includes products between SACU and the USA. This is despite the existence of a TIFA, namely TIDCA, between SACU and the USA. Nonetheless, SACU has continually enjoyed trade preferences with the USA predominantly through AGOA. However, due to the transforming political and trade landscape, AGOA, which is set to expire in 2025, may not be renewed. Furthermore, AGOA is a unilateral USA trade Act and not a reciprocal trade arrangement.

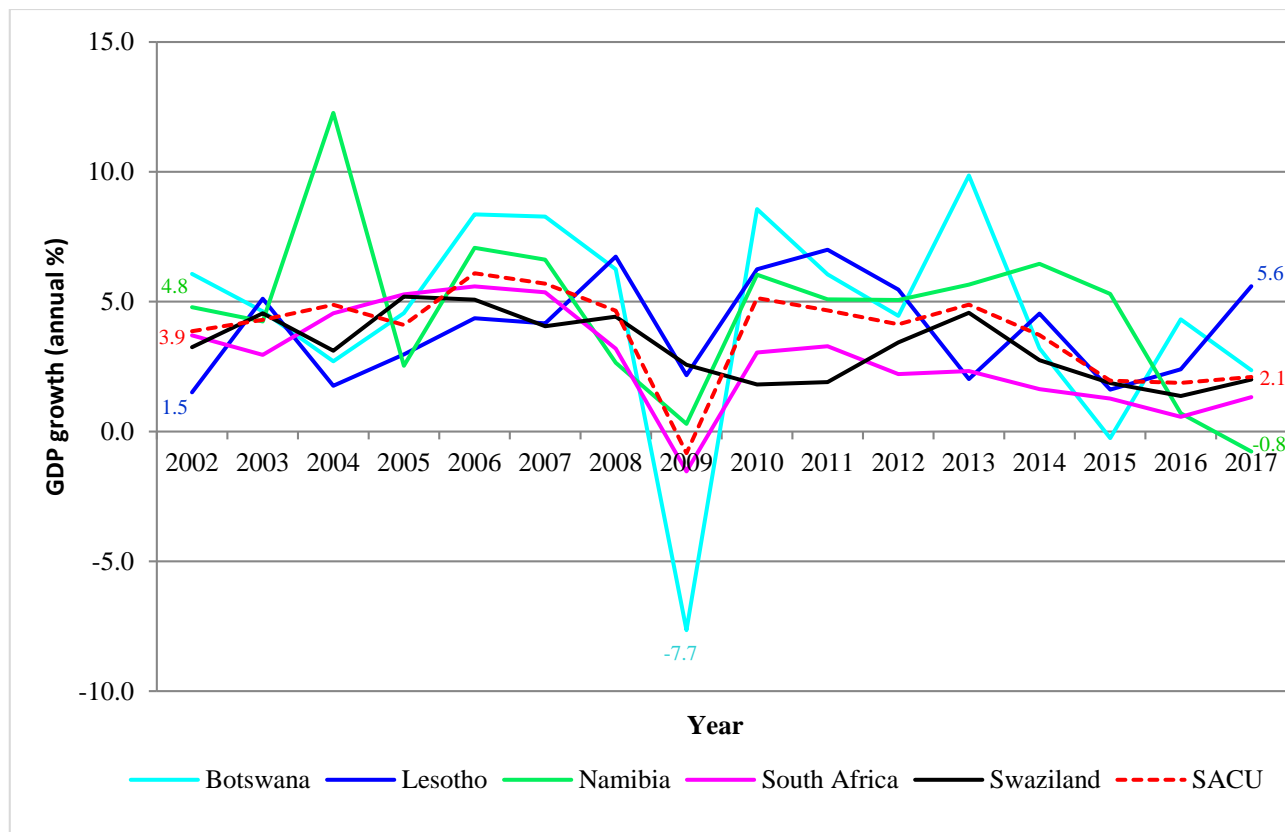
Given the importance of the USA in SACU's export endeavours, freer trade with the country holds benefits for both SACU and the USA exporters and importers. Therefore, for both parties to benefit, a BTA that builds on AGOA, while addressing AGOA drawbacks and taking reciprocity into account, should be negotiated between SACU and the USA.

3.2.4 Southern African Customs Union in the context of AGOA

Economic growth, inspired largely by exports, is key to reducing poverty and unemployment in the whole SACU region (National Planning Commission [NPC], 2013). Yet, SACU's economic growth continues to deteriorate. It is clear from Figure 3.4 that the economic growth of SACU as measured by annual growth of Gross Domestic Product (GDP) has declined from 3.9% to 2.1% between 2002 and 2017. With the exception of Lesotho whose economic growth increased from 1.5% to 5.6% over the same period, economic growth of the other SACU members has declined below the 2002 level. South Africa, in particular, has seen its economic growth decline from 3.7% (in 2002) to 1.3% (in 2015), which further deteriorated to 0.6% (in 2016) before reverting to the 2015 level in 2017. This is despite all SACU Member States having recovered from the aftermath of the 2008 GFC, which saw Botswana and South Africa registering economic growth rates of -1.5% and -7.7% in 2009 with SACU as a whole registering a negative economic growth rate of -0.8 in the same year.

Excluding Lesotho, there has been a general decline in the economic growth trend of all individual SACU Member States, between 2002 and 2017.

Figure 3.4: Economic growth of SACU and its Member States from 2002 to 2017



Source: Author's own figure based on data retrieved from WB (2017)

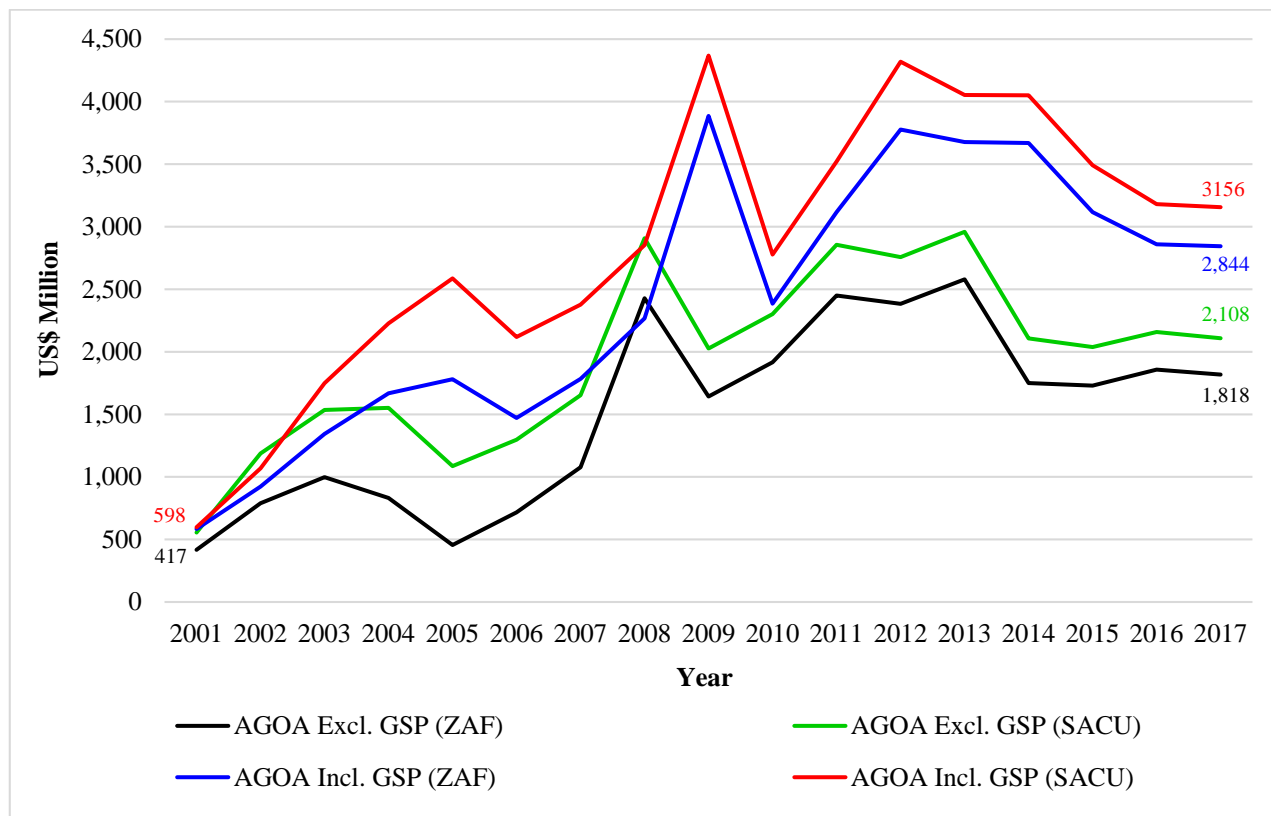
Nevertheless, the economic blueprint of SACU's largest economy, South Africa, identifies exports as an engine for rapid and more inclusive economic growth (NPC, 2013). In fact, the National Development Plan (NDP) requires an annual export growth target of 6% to support the achievement of an annual GDP of 5.4%, which is a prime condition of the NDP (NPC, 2013:64). Therefore, there is no doubt that SACU needs preferential market access in markets of its traditional trading partners, such as the USA, in order to sustain its economic growth.

Faced with the challenges of global trade policy uncertainty and the growing trend towards bilateralism, especially in the USA, it is apparent that SACU needs to revise its trade policy to reflect new global political and trade realities. One way to achieve this is to negotiate a reciprocal BTA with the USA. This is a viable alternative since the parties already attempted to negotiate a BTA between 2003 and 2007 and the talks collapsed, mainly due to diverging views on the scope of the agreement.

SACU and South Africa's AGOA exports are shown in Figure 3.5. From 2001 to 2017, SACU AGOA (including GSP) exports increased from US\$598 million to US\$3.2 billion, while South Africa's AGOA (including GSP) exports increased from US\$583 million to US\$2.8 billion. This is

highly regarded considering that combined AGOA countries exports declined from US\$10.68 billion to US\$10.6 billion over the period between 2001 and 2016, before improving to US\$13.6 billion in 2017 (see Figure 3.2).

Figure 3.5: SACU and South Africa AGOA exports from 2001 to 2017



Source: Author’s own figure based on data retrieved from AGOA (2017b)

In preparation for its post-AGOA relationship with the USA, if AGOA is not renewed after its expiry in 2025, SACU can consider the following two options (Prinsloo & Ncube, 2016):

- Option A: Permitting AGOA to expire without making any alternative trade arrangements with the USA. This option is well thought of as simple, but would refer SACU’s trade with the USA to the WTO’s conventions. Despite the easiness of this option, the absence of both market access and legitimate dispute resolution mechanisms (that is, outside of bilateral diplomatic forums) would be costly for SACU. In addition, this option would likely affect trade and investment between SACU and the USA, considering that this option would offer little incentive for private sector engagement.

This option also increases the USA tariffs applied on SACU, when the USA’s applied tariffs revert to MFN levels, following the possible non-renewal of AGOA after it expires in 2025. The

welfare, macro-economic and sectoral effects of such a tariff policy reform, are simulated in Step 1.1 of the research method applied in this study (see Section 4.2.1); and

- Option B: A more pro-active approach is to re-engage the USA in negotiation of a reciprocal trade agreement. Between 2003 and 2007, SACU and the USA attempted to negotiate an FTA, but the talks were ultimately flouted (Lehloenya, 2009). While both SACU and the USA were partially accountable for the collapse of the negotiations, conflicting views on the scope of the FTA were considered as the prime obstacle. Diversity and deficiency of coherence in trade and investment policy within SACU, along with the USA's farm subsidies, were also deemed significant impediments to the negotiation (Brown *et al.*, 2006).

Even though the 2003 to 2007 FTA negotiations between SACU and the USA collapsed, global as well as domestic political and economic atmosphere has considerably transformed in the previous decade. In fact, the past two decades have witnessed an exceptional increase in BTAs and RTAs. For instance, between 1970 and 1990, a total of eleven BTAs were signed in comparison to approximately 250 BTAs signed between 1990 and 2015 (WTO, 2017b). This validates the need for reconsideration of this option.

The welfare, macro-economic and sectoral effects of such a trade liberalisation policy reform are simulated in Step 1.2 of the research method applied in this study (see Section 4.2.2).

If SACU decides to follow Option B, this means that the trading bloc will have to negotiate a new reciprocal trade agreement with the USA (Prinsloo & Ncube, 2016). This is in accordance with item one to three of Article 31 of the 2002 SACU Agreement, which governs trade relations with third parties (SACU, 2002).⁴⁵ The kind of trade relationship that SACU will have with the USA if AGOA is not renewed after its expiry in 2025 is uncertain (Akiko, 2017). This reveals the need for SACU to be pro-active and look beyond the expiry of AGOA. From SACU's standpoint, negotiating a reciprocal BTA with the USA may be seen as a way of locking in AGOA benefits if AGOA is not renewed upon its expiry in 2025 (Quelle, 2018).

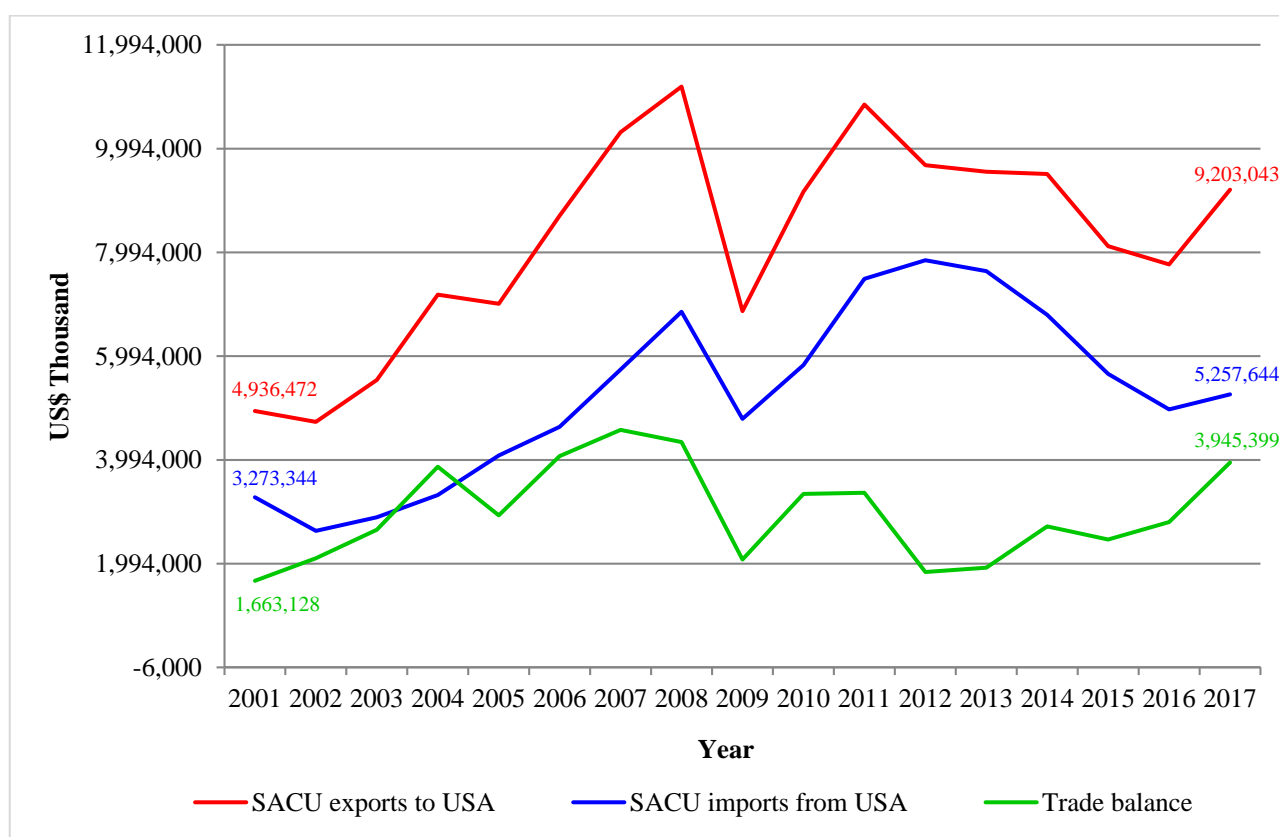
The USA is among SACU's largest trading partners. Bilateral trade between SACU and the USA from 2001 to 2017 is shown in Figure 3.6. Between 2001 and 2017, SACU's exports to the USA increased from US\$4.9 billion to US\$9.2 billion, of which approximately 75% benefited from AGOA and GSP preferences. In 2017 alone, SACU exported US\$9.2 billion worth of goods to the USA. In turn, US\$5.3 billion worth of goods were imported by SACU from the USA in the same

⁴⁵ See Table A.1 in Appendix A.

year. Despite this, the USA experienced a trade deficit of approximately US\$4 billion with SACU in 2017.

SACU mainly exports natural or cultured pearls, precious or semi-precious stones, precious metals and metals clad with precious metal, to the USA. In turn, the USA mainly exports machinery, mechanical appliances, nuclear reactors and boilers, to SACU countries. Among SACU members, South Africa is the largest exporter to the USA and the country is also the largest importer of the USA's products.

Figure 3.6: Bilateral trade between SACU and the USA from 2001 to 2017



Source: Author's own figure based on data retrieved from ITC (2018b)

Over the past years, SACU has instituted respectable trade policy reforms that are supportive of trade liberalisation. A discussion of the overview of SACU trade policy is provided in the following section.

3.3 SACU trade policy overview

Besides all SACU Member States being members of the WTO, the trading bloc has signed several trade agreements with its trading partners, outside the multilateral trading system. These trade agreements, aimed at enhancing market access and export competitiveness of SACU countries in foreign markets, are discussed in Sections 3.3.1 to 3.3.3.

3.3.1 Free Trade Agreements (FTAs)

3.3.1.1 *European Free Trade Association (EFTA)-SACU FTA*

The EFTA-SACU FTA is an FTA between SACU and the European Free Trade Association (EFTA) Member States⁴⁶ (DAFF, 2009b). The FTA came into being on the 1st of May 2008 with the aim of reducing tariffs on selected products (DTI, 2016). The FTA covers industrial products (including fish and other marine products) and processed agricultural products. However, primary agricultural products are covered by separate Agricultural Agreements (AAs) with individual EFTA countries (DTI, 2016).⁴⁷ The EFTA-SACU FTA lays the foundation for further engagement of the Member States with regard to investment, intellectual property, public procurement, and trade in services (EFTA, 2008).

3.3.1.2 *European Union (EU)-SADC-Economic Partnership Agreement (EPA)*

The EU-Southern Africa Development Community (SADC)-EPA was signed on the 10th of June 2016 between SADC-EPA States⁴⁸ and the EU and its Member States (EC, 2017a). With the exception of Mozambique, all the other SADC-EPA States are all SACU Members.⁴⁹ The EPA covers most products and once ratified by Member States, it will replace the trade chapter of the Trade, Development and Co-operation Agreement (TDCA), which currently govern South Africa's trade relations and development co-operation with the EU (DTI, 2016). The EPA guarantee duty and/or quota-free access to the EU market for Botswana, Lesotho, Mozambique, Namibia and Eswatini (EC, 2017a). South Africa will benefit from new market access additional to the TDCA (DTI, 2016).

3.3.1.3 *Africa Continental Free Trade Agreement (AfCFTA)*

The AfCFTA is a flagship project of the AU's Agenda 2063. Talks to establish the AfCFTA commenced in Addis Ababa, Ethiopia in January 2012 during the 18th Ordinary Session of the Assembly of Heads of State and Government of the AU. The Heads of State and Government agreed on a roadmap for establishing the AfCFTA by the suggestive date of 2017. However, the agreement establishing the AfCFTA, namely the protocol on trade in goods, the protocol on trade in services and the protocol on rules and procedures on the settlement of disputes were adopted and

⁴⁶ EFTA Member States: Iceland, Liechtenstein, Norway and Switzerland (EFTA, 2008).

⁴⁷ Three separate AAs, which entered into force on the 1st of January 2008, were concluded by SACU in 2006 with Iceland, Norway and Switzerland (DTI, 2016).

⁴⁸ SADC-EPA States: South Africa, Botswana, Namibia, Eswatini, Lesotho and Mozambique. Angola has an option to join the agreement in future (EC, 2017a).

⁴⁹ SACU members are all part of the EU-SADC EPA under the umbrella of SADC.

initially signed by 44 AU Member States during the 2018 AU extraordinary summit on AfCFTA in Kigali, Rwanda (Erasmus, 2018).

The AfCFTA entered into force in May 2019 after surpassing the 22 mandatory ratifications. The main objective of the AfCFTA is to create a single continental market for goods and services, with free movement of business people and investments, and thus pave the way for accelerating the establishment of a CU.

3.3.2 Preferential Trade Agreements (PTAs)

The Mercosur-SACU PTA is a PTA that exists between the Southern Common Market or Mercosur⁵⁰ and SACU. The PTA was signed on the 15th of December 2008 in Salvador, Brazil and on the 3rd of April 2009 in Maseru, Lesotho (SACU, 2017). The main objective of the Mercosur-SACU PTA is to promote trade between the members of Mercosur and SACU through tariff reductions. The PTA also seeks to promote trade-related issues such as customs cooperation, SPS and additional coverage of products for preferential treatment (DAFF, 2009c). In fact, Mercosur-SACU PTA creates a legal basis for further integration and cooperation through possible further exchanges of tariff preferences as well as cooperation in a range of other related trade and investment areas (DTI, 2017). The agreement entered into force on the 1st of April 2016 and covers about 1 000 tariff lines on each side of the border (DTI, 2016).

3.3.3 Current Trade Negotiations

3.3.3.1 *India-SACU PTA*

The India-SACU PTA is a PTA currently being negotiated between SACU and India (SACU, 2012; DTI, 2016). The negotiations commenced in 2012 with the aim of reducing tariffs on selected goods (South African Institute of Internal Affairs [SAIIA], 2012). The process of exchanging tariff requests between SACU and India is still on-going (DTI, 2016). Four negotiating rounds have, at present, been undertaken by SACU and India. In the negotiations, SACU raised concerns regarding non-tariff barriers in the Indian market and requests by India in sensitive sectors like textiles and clothing (DTI, 2017). Nonetheless, during the fourth negotiating round, India submitted its initial tariff preference requests to SACU and also provided draft SPS and TBT texts to SACU for consideration. During the same negotiating round, SACU and India also discussed the text of agreement, including the annexure relating to safeguard measures and dispute settlement.

⁵⁰ Mercosur Member States (SACU, 2017): Argentina; Brazil; Paraguay; and Uruguay.

3.3.3.2 COMESA-EAC-SADC Tripartite FTA

This is an FTA currently being negotiated among three regional trading blocs in Africa, namely the Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC), and SADC⁵¹ (DTI, 2016). The Tripartite FTA will consist of 27 countries⁵² with a joint Gross Domestic Product (GDP) of US\$860 billion and a collective population of roughly 590 million people (SADC, 2012). Of the 27 countries, 22 have already signed the agreement (see countries in bold in Footnote 51) (TRALAC, 2017). To enter into force, the Tripartite FTA requires 14 ratifications. However, only eight countries have so far ratified the agreement.

The Tripartite FTA derives its foundation from the Lagos Plan of Action and the Abuja Treaty establishing the AEC, which call for rationalisation of Africa's regional economic communities (DTI, 2016). The Tripartite initiative consists of three pillars (market integration, infrastructural improvement and industrial expansion) that will be pursued simultaneously, in order to warrant an unbiased spread of the benefits of regional integration (TRALAC, 2017). The FTA will, as a preliminary phase, cover only trade in goods. However, services and other trade-related areas will be covered in subsequent phases (DTI, 2016).

The following section provides an overview of the USA trade policy.

3.4 USA trade policy overview

Since the end of WWII, the trade policy of the USA has generally focused on: promoting an unrestricted, rules-based universal trading system; liberalising markets by diminishing trade and investment barriers through participating in trade negotiations and trade agreements; and enforcing trade commitments and associated laws and regulations (Congressional Research Service, 2019).

On multilateral scale, the USA is a member of the WTO. Just like SACU, the country has signed many trade agreements, outside the multilateral trading system, with its trading partners. These trade agreements, discussed in Sections 3.4.1 to 3.4.4, are intended to enhance USA's market access and export competitiveness in foreign markets. However, in certain instances, these agreements are arguably used by the USA as tactics aimed at achieving the country's foreign policy objectives (Rosen, 2004; Zorob, 2018).

⁵¹ SACU members are participating in the Tripartite FTA negotiations under the umbrella of SADC.

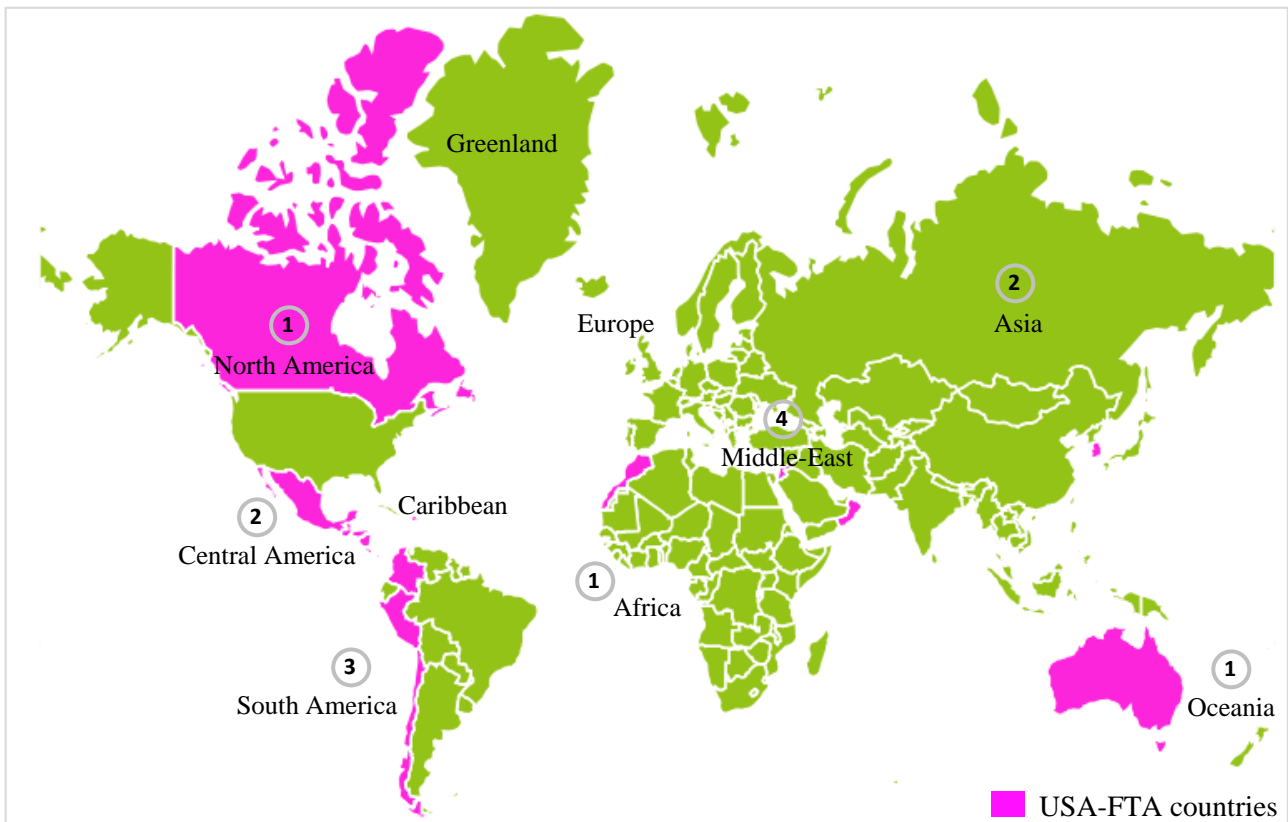
⁵² Tripartite FTA countries (SADC, 2012; TRALAC, 2017): **Angola, Botswana, Burundi, Comoros, Djibouti, Democratic Republic of Congo (DRC), Egypt, Eritrea, Ethiopia, Kenya, Lesotho, Libya, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, South Sudan, Sudan, Eswatini, Tanzania, Rwanda, Uganda, Zambia, and Zimbabwe.**

3.4.1 Free Trade Agreements (FTAs)

FTAs are treaties between two or more countries intended to facilitate trade and eliminate trade barriers. Its ultimate aim is to eliminate tariffs completely from the first day in force or over a certain period of time (Grimson, 2014). For the USA, the main goals of concluding FTAs (see Table 3.1) are arguably to enhance the competitiveness of USA firms by reducing or eliminating trade barriers, protect USA trade and investment interests, and inspire the rule of law in the FTA partner country or countries (ITA, 2018). In fact, the reduction or elimination of trade barriers and the establishment of a more stable and transparent trade and investment environment make it easier and cheaper for USA companies to export their products and services to trading partner markets (USTR, 2018d).

The USA has signed a total of 14 FTAs, currently in force, with 20 countries (see Table 3.1 and the mapping of USA FTA partner countries in Figure 3.7).

Figure 3.7: Mapping of USA FTA partner countries



Source: Author's own figure based on USTR (2018d)

On the African continent, the USA has concluded only one FTA with Morocco (see Figure 3.7). A total of 4 of the 14 FTAs established by the USA were concluded with partner countries in the Middle-East.

Table 3.1: FTAs in force signed by the USA

FTA	Entry into force	Member States	Main objective(s)
US-Australia FTA	01-01-2005	USA and Australia	<ul style="list-style-type: none"> ▪ Creating free trade between the USA and Australia by eliminating and reducing the barriers to trade in goods as well as barriers to investment.
US-Bahrain FTA	11-01-2006	USA and Bahrain	<ul style="list-style-type: none"> ▪ Accomplishing comprehensive liberalisation across an extensive continuum of trade-related matters, in terms of both merchandises and services. ▪ Supporting Bahrain's economic and administrative transformations and enhancing USA's business associations with Bahrain.
US-(DR-CA) FTA	01-03-2006 to 01-01-2009	USA, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and DR	<ul style="list-style-type: none"> ▪ Promoting stronger trade and investment ties, prosperity, and stability throughout the region. ▪ Promoting the rule of law as well as transparent and fair procedures in government action.
US-Chile FTA	01-01-2004	USA and Chile	<ul style="list-style-type: none"> ▪ Encouraging expansion and diversification of trade between the USA and Chile. ▪ Eliminating obstacles to trade in goods and services as well as the facilitation of cross-border movement of goods and services between the USA and Chile. ▪ Promoting the provisions of free and impartial competition within the FTA. ▪ Substantially expanding investment prospects in the territories of the USA and Chile. ▪ Providing satisfactory and efficient safeguarding as well as the execution of intellectual property rights in the USA and Chile territories. ▪ Creating effectual processes for the enactment and implementation of the FTA, its collective administration, and resolution of its disagreements. ▪ Establishing a foundation for additional bilateral, regional, and multilateral cooperation in order to develop and augment the gains of the FTA.
US-Colombia TPA	15-05-2012	USA and Colombia	<ul style="list-style-type: none"> ▪ Promoting broad-based trade and economic development intended to replace drug crop production, strengthening cooperation, expanding trade within a structure of rules, and simplifying regional trade.
US-Israel FTA	01-09-1985	USA and Israel	<ul style="list-style-type: none"> ▪ Increasing trade and investment between the USA and Israel through the reduction of trade and investment barriers as well as the promotion of regulatory openness.

Table 3.1: FTAs in force signed by the USA (continued)

FTA	Entry into force	Member States	Main objective(s)
US-Jordan FTA	17-12-2001	USA and Jordan	<ul style="list-style-type: none"> ▪ Strengthening the alliance, collaborations and economic associations between the USA and Jordan. ▪ Establishing transparent and reciprocally beneficial rules and regulations, governing bilateral trade between the USA and Jordan, in anticipation of stimulating shared interest through the liberalisation and expansion of trade.
US-Korea FTA	15-03-2012	USA and South Korea	<ul style="list-style-type: none"> ▪ Eliminating tariffs and other impediments to trade in goods and services between the USA and South Korea. ▪ Promoting economic growth and consolidating commercial relations between the USA and South Korea.
US-Morocco FTA	01-01-2006	USA and Morocco	<ul style="list-style-type: none"> ▪ Supporting substantial economic and administrative transformations in Morocco as well as the provision of enhanced economic prospects for both parties by reducing and eliminating barriers to trade.
US-Oman FTA	01-01-2009	USA and Oman	<ul style="list-style-type: none"> ▪ Generating novel employment prospects and improving the living conditions for the citizens of the USA and Oman through the liberalisation and expansion of trade between the parties. ▪ Augmenting the effectiveness of the USA and Oman business entities in international markets. ▪ Instituting transparent and equally beneficial rules and regulations directing trade between the USA and Oman. ▪ Reducing corruption and exploitation in global trade and investment activities. ▪ Inspiring ingenuity and novelty through the promotion of technological advancements as well as the enhancement of the upholding and the administration of intellectual property rights. ▪ Consolidating the advancement and the implementation of labour and ecological legislations and guidelines. ▪ Creating a comprehensive free trade area in the ME, thus promoting economic liberalisation and expansion in the ME region.

Table 3.1: FTAs in force signed by the USA (continued)

FTA	Entry into force	Member States	Main objective(s)
USMCA	Pending	USA, Canada and Mexico	<ul style="list-style-type: none"> ▪ Eliminating obstacles to international trade. ▪ Among others: promoting transparency, good governance, environmental protection, and the protection and enforcement of the rule of law. ▪ Strengthening macroeconomic cooperation between Member States.
US-Panama TPA	31-10-2012	USA and Panama	<ul style="list-style-type: none"> ▪ Reinforcing the extraordinary alliance and collaboration between the two countries and promoting economic integration in the region. ▪ Preventing prejudices to the reciprocal USA-Panama bilateral trade. ▪ Promoting transparency and eliminating bribery and corruption in global trade and investment activities. ▪ Instituting transparent and jointly beneficial procedures governing their trade. ▪ Promoting regional integration and providing a stimulus towards creating the free trade zone of the Americas.
US-Peru TPA	01-02-2009	USA and Peru	<ul style="list-style-type: none"> ▪ Strengthening the associations and collaborations between the USA and Peru as well as promoting economic integration in the region. ▪ Promoting inclusive economic expansion with the aim of alleviating poverty and creating prospects for sustainable economic substitutes to the production of drug-crops. ▪ Generating novel employment prospects and enhancing labour and living conditions in the USA and Peru territories. ▪ Guaranteeing a defined legal and economic framework for commercial and investment activities.
US-Singapore FTA	01-01-2004	USA and Singapore	<ul style="list-style-type: none"> ▪ Facilitating bilateral trade by eliminating or reducing tariffs, technical barriers to trade, and sanitary and phytosanitary measures to cross-border movement of merchandise between the USA and Singapore. ▪ Promoting rivalry and openness by eliminating bribery as well as corruption in business transactions

Note: DR-CA (Dominican Republic-Central America); EU (European Union); FTA (Free Trade Agreement); ME (Middle-East); TPA (Trade Promotion Agreement); US (United States); USA (United States of America); and USMCA (United States-Mexico-Canada Agreement).

Source: Author's own compilation based on USTR (2018d)

In Europe, no FTA exists between the USA and European countries. This is also the case with Caribbean countries excluding the Dominican Republic, which is a Member State of the US-(DR-CA) FTA. In the Americas, the USA has concluded six FTAs (i.e. 3 in South America, 2 in Central America and 1 with its North American neighbours). The country has also concluded one FTA in the Oceania with Australia and two FTAs in Asia with South Korea and Singapore.

With the exception of Morocco, the USA's trade and investment relations in Africa are in the form of TIFAs and Bilateral Investment Treaties (BITs) (see Figure 3.8 in Section 3.4.2 and Figure 3.9 in Section 3.4.3). In the SACU trading bloc, specifically, the USA concluded a TIFA with South Africa and a TIDCA with SACU as a bloc. These agreements do not include any tariff concessions on products bilaterally traded between SACU members and the USA.

Currently, SSA countries (including SACU countries) primarily access the USA market via unilateral trade agreements in the form of GSP and AGOA. However, negotiation of an FTA remains a long-term objective for both the USA and SACU (DTI, 2016; USTR, 2016).

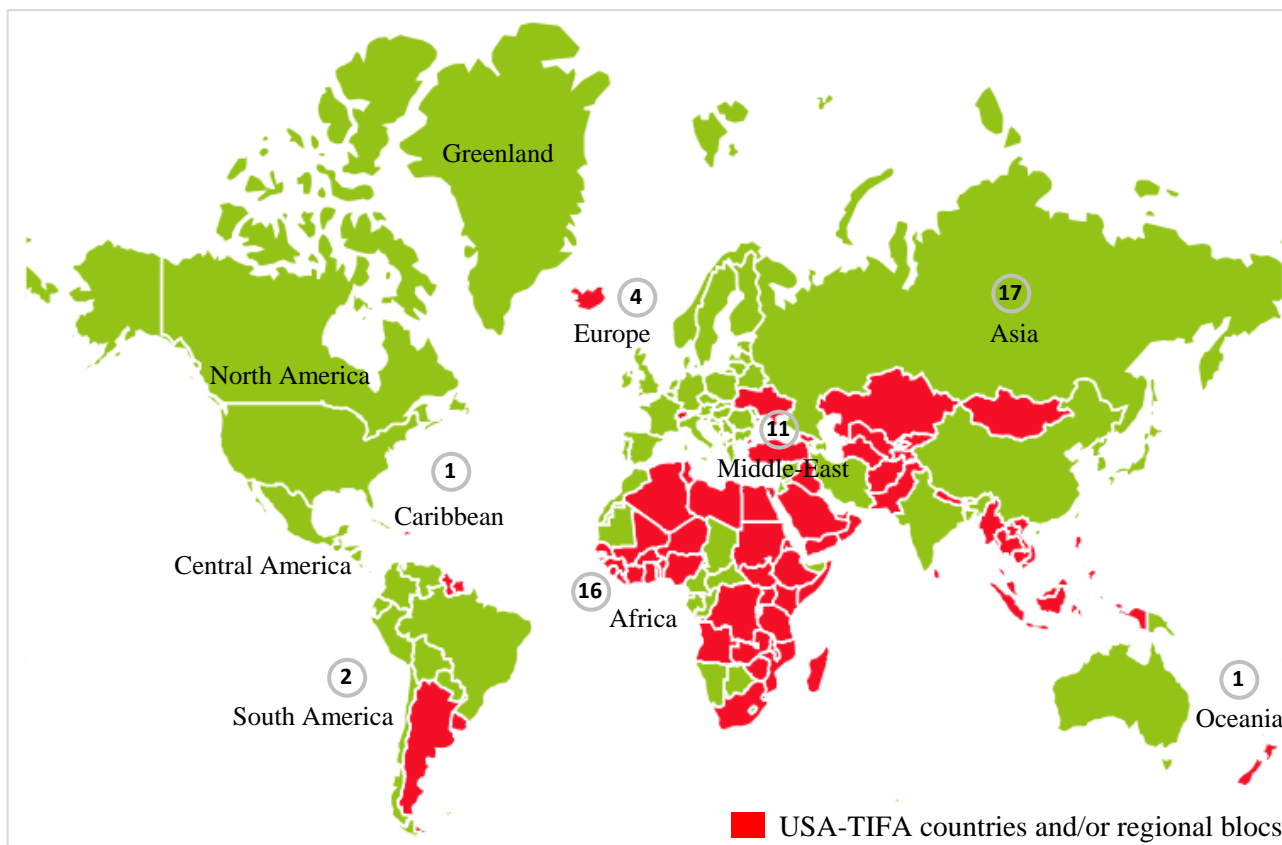
3.4.2 Trade and Investment Framework Agreements (TIFAs)

TIFAs are trade pacts, between two or more countries, which establish a strategic framework and principles for dialogue on trade and investment issues among the signatories to the TIFAs (USTR, 2018a). These agreements normally go beyond the BIT model, discussed in Section 3.4.3.

The USA has concluded TIFAs with many countries and certain regional blocs (see the mapping in Figure 3.8). For instance, TIFAs have been concluded with several African partner countries including Angola, Ghana, Liberia, Mauritius, Mozambique, Nigeria, Rwanda and South Africa (TRALAC, 2018a). Likewise, TIFAs have also been concluded with numerous regional country groups, such as COMESA, EAC and West African Economic and Monetary Union (WAEMU). As exposed in Table 3.1, other than TIFAs and BITs, no bilateral FTA has ever been concluded between the USA and any SSA country (USTR, 2018d).

Although the names of framework agreements may vary, for example, USA-SACU TIDCA (see Section 3.2.1), USA-Icelandic Forum, and the USA-Ukraine Trade and Investment Council, all these agreements serve as a forum for the USA and other governments to meet and discuss issues of mutual interest with the objective of improving cooperation and enhancing trade and investment opportunities (United States International Trade Commission [USITC], 2016). In this regard, the USA and its TIFA partners consult on a wide range of issues related to trade and investment.

Figure 3.8: Mapping of USA TIFA partner countries and/or regional blocs



Source: Author's own figure based on USTR (2018a)

Topics for dialogue and potential progressive cooperation include: issues of market access; workers' rights; environmental protection; intellectual property rights protection and enforcement; and capacity building, in applicable cases (USTR, 2018a).

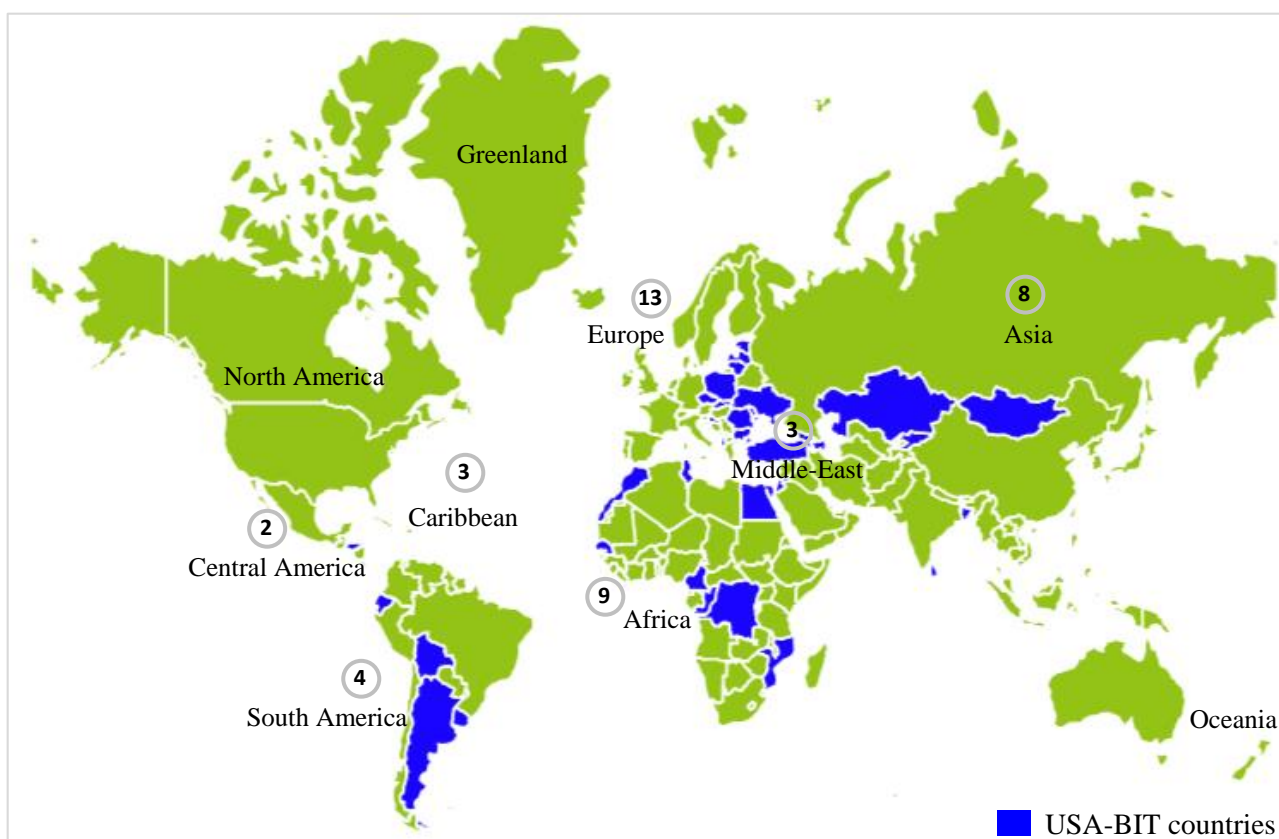
3.4.3 Bilateral Investment Treaties (BITs)

BITs are an agreement between two countries in relation to promotion and protection of investments made by investors from respective countries in each other's territory (UNCTAD, 2013). From the USA's standpoint, the basic objectives of its BIT initiatives are: to protect investment abroad in countries where investor rights are not, at present, protected through existing agreements (e.g. modern treaties of friendship, commerce, and navigation, or FTAs); to inspire the adoption of market-oriented domestic policies that deal with private investment in an open, transparent, and non-discriminatory manner; and to embolden the development of international law standards harmonious with the objectives mentioned here (USTR, 2018e).

Similar to TIFAs, the USA has concluded numerous BITs with partner countries (see the mapping in Figure 3.9). The USA's BIT partners on the African continent include Mozambique, DRC, Republic of Congo, Egypt, Morocco and Senegal. However, all SACU countries are not USA-BIT

partner countries. This is despite the core benefits provided by BITs to both USA and partner countries investors. Such benefits include, among others, the requirement that investors and their “covered investments” (i.e. investments of a national or company of one BIT party in the territory of the other party) be treated as favourably as the host party treats its own investors and their investments or investors and investments from any third party country (USTR, 2018e). Thus, the BITs typically provide the better of national treatment or MFN treatment for the full life-cycle of the investment.

Figure 3.9: Mapping of BIT partner countries



Source: Author’s own figure based on USTR (2018e)

3.4.4 Unilateral Arrangements

In addition to the GSP and AGOA (see Section 3.2.2 and 3.2.3), the USA also offers a unilateral trade arrangement, namely the Caribbean Basin Initiative (CBI), to Central American and Caribbean countries (Busbin, 2015). The CBI is a collection of the Caribbean Basin Economic Recovery Act of 1983 (CBERA) (amended in 1990) and the Caribbean Basin Trade Partnership Act (CBTPA) of 2000. It provides duty-free entry to the USA, on a permanent basis, for a broad range of products from CBI beneficiary countries (USTR, 2018f). CBERA was implemented on the 1st of

January 1984 and, unlike AGOA and the CBTPA, it has no set expiration date. The CBTPA is set to expire on the 30th of September 2020.

CBI is designed to promote economic development in Central American and Caribbean countries through private sector initiative (Potoker & Borgman, 2007). Its prime objective is to broaden foreign and domestic investment in unconventional sectors, thereby diversifying CBI country economies and expanding their exports (Campbell, 2014). Currently, the CBI provides 19 beneficiary countries with duty-free access to the USA market for most goods.⁵³

Similar to AGOA, countries must meet the designation criteria outlined in the CBTPA in order to qualify for CBI benefits. The designation criteria include, but not limited to: the country not being a communist country; taking adequate steps to cooperate with the USA to prevent narcotic drugs from entering the USA territory; providing preferential treatment to the products of another developed country that adversely affects trade with the USA; economic conditions in the country; taking steps to afford internationally recognised workers' rights to workers in that country; and protection of intellectual property rights (ITA, 2000).

Presently, the USA is not participating in any bilateral trade negotiations. This follows the decision by the Council of the EU, in April 2019, to declare the negotiating directives for the Transatlantic Trade and Investment Partnership (TTIP)⁵⁴ obsolete and no longer relevant (EC, 2019b). However, in 2019, the USA and Kenya announced plans to commence negotiations of a reciprocal BTA.

The following section provides a summary of the SACU-USA trade relations as well as the respective trade policy overview of SACU and the USA.

3.5 Summary

SACU-USA trade relations as well as the trade policy overview of both SACU and the USA were discussed in this chapter. Both SACU and the USA are open economies that have, over the past decades, implemented trade policy reforms aimed at liberalising trade. This has resulted in a decline in the average MFN tariffs applied by SACU countries and the USA to their trading partners.

It is acknowledged in this chapter that, while SACU and the USA are participants in the multilateral trading system as members of the WTO, they are also signatories to a number of trade arrangements

⁵³ CBI beneficiary countries (USTR, 2018f): Antigua and Barbuda; Aruba; Bahamas; Barbados; Belize; British Virgin Islands; Costa Rica; Dominica; Grenada; Guyana; Haiti; Jamaica; Montserrat; Netherlands Antilles; Panama; St. Kitts and Nevis; St. Lucia; St. Vincent and the Grenadines; and Trinidad and Tobago.

⁵⁴ The TTIP negotiations were launched in 2013 by the EU and the USA. After 15 negotiating rounds, the TTIP negotiations ended without conclusion at the end of 2016 (EC, 2019b).

outside the multilateral trading system. In fact, all WTO Member States and governments are signatories to at least one trade agreement outside the multilateral trading system. The main objective of negotiating and concluding such trade agreements is to improve market access and export competitiveness in foreign markets. However, in some instances, countries (e.g. the USA) use trade agreements as a policy mechanism aimed at achieving foreign policy objectives and rewarding allies.

SACU has signed FTAs with the EFTA and the EU where SACU Member States are signatories to the agreement under the SADC. A PTA aimed at reducing tariffs on selected goods and promoting trade between SACU and Mercosur is also in place. In addition to reciprocal trade arrangements, SACU is a beneficiary of non-reciprocal trade arrangements. Such non-reciprocal trade arrangements include the GSP and AGOA, which are primarily aimed at empowering developing countries to enhance their economic conditions and integration into the multilateral trading system through preferential market access in developed countries.

In the case of SACU and the USA, no trade agreement that includes products exist. However, there is a TIFA (i.e. TIDCA) in place, which is designed to assist in laying the foundation for a future BTA between SACU and the USA. Therefore, trade relations between SACU and the USA are primarily governed by the WTO's MFN principle. Nonetheless, two unilateral trade arrangements, namely the GSP and AGOA, additionally govern the trade relations between SACU and the USA.

AGOA, specifically, is due to expire in 2025 and there is lingering uncertainty surrounding its renewal. If the Trade Act is not granted a new lease of life, this means that the bilateral trade relations between the USA and AGOA beneficiary countries (SACU members included) are undefined. Consequently, to be pro-active, such trading partners have to engage the USA in bilateral trade negotiations in preparation for their post-AGOA trade relationship with the USA. However, some developing countries may face capacity constraints in terms of trade policy analysis and negotiation. This diminishes their capacity to better prepare for bilateral trade negotiations and may expose them to trade agreements they had no significant effect and contribution in the negotiation process.

The USA, on the other hand, has signed 14 FTAs with a total of 20 countries. Of those FTAs, only one was concluded on the African continent, with Morocco. In fact, the USA's trade and investment relations in Africa are in the form of TIFAs and BITs. The country also extends unilateral trade arrangements to a number of developing countries in the form of GSP, AGOA and the CBI. The primary aim of such unilateral trade arrangements is to enhance the beneficiary countries access

into the USA market. This, in turn, assists them to utilise trade as a tool to expand their economies and alleviate poverty.

Currently, SACU is negotiating a preferential trade agreement with India, and SACU countries are also participating in the negotiations of Tripartite FTA, as members of SADC. The USA, on the other hand, is currently not participating in any bilateral trade negotiations although plans to begin negotiations of a bilateral trade agreement with Kenya have been publicised.

The following chapter provides a comprehensive description of the research method applied in this study to identify priority products and sectors that should be prioritised in the negotiation of a potential reciprocal trade agreement between SACU Member States and the USA.

CHAPTER 4: RESEARCH METHOD

4.1 Introduction

Chapter 2 established the theoretical basis of this study and provided a review of literature relating to free trade and the international political economy, trade negotiations, trade negotiation and trade policy analysis capacity constraints, trade agreements, and market access. An overview of SACU-USA trade relations as well as the trade policy of SACU and the USA were discussed in Chapter 3. It is acknowledged in these chapters that the swift escalation of global interdependence has enforced all nations, regardless of their prior beliefs or policies, to liberalise their trade strategies. Therefore, the validation for free trade and the various irrefutable benefits that export specialisation contributes to the productivity of countries have been extensively discussed and well documented in international trade literature (Bhagwati, 1978; Krueger, 1978).

In order to achieve success in today's global economy, countries ought to compete efficiently in both domestic and foreign markets. This is true irrespective of how vast the home market is (Bergsten, 1996). In today's liberalised markets, free trade policies have generated a degree of competition that emboldens persistent efficiency and innovation. This has led to enhanced economic growth, better access to cheaper high quality products, improved operational efficiency, economies of scale and, in certain circumstances, fair trade, all of which are benefits of free trade policies (Boudreaux & Ghei, 2017).

In pursuit of freer international trade, various nations have been engaging in trade negotiations and pursuing reciprocal trade agreements even before the days of the 1947 GATT (Dam, 2004; Grossman, 2016). However, trade negotiations follow a systematic manner or process. While there is no one-size-fits all approach to trade negotiations, it is possible to isolate key elements that are required to hypothesise multilateral and bilateral trade negotiation processes (EC, 2013). As highlighted in Section 2.4.1, the trade negotiation process can be divided into three major phases, namely preparation, negotiation, and the conclusion phase. Various activities are undertaken in each of these phases.

A growing trend towards bilateralism has been witnessed in recent years. In the context of trade policy analysis performed in the preparation phase of the bilateral trade negotiation process, literature on product-level prioritisation methods, which specifically consider both countries' core export competences and the size, growth and consistency of the import demand, is silent. Product-level prioritisation is crucial, not only in addressing capacity constraints that some developing countries may face, but also in providing the benefits of a rigorous, quantitative analysis. This is

especially important in the preparation phase of the trade negotiation process, as it can contribute to inclusive trade agreements with greater implementation support (see section 1.7).

This study therefore contributes to trade negotiation literature by developing a product-level prioritisation method that can be used in the preparation phase of the bilateral trade negotiation process to identify, beforehand, products (at HS6-digit level) and sectors (at HS2-digit level) that should be prioritised in the negotiation. Hence, instead of focusing on all products in the negotiation, only those products that: (i) have consistently large and/or growing import demand (see Section 4.2.3), while it is, at the same time, (ii) consistently exported competitively (see Section 4.2.4); and have both (iii) low market concentration (see Section 4.2.6) and (iv) low tariff-wise market access in the importing market (see Section 4.2.7), are prioritised⁵⁵.

The product-level prioritisation method developed in this study combines selected parts of three research methodologies, namely the Global Trade Analysis Project (GTAP) model of Hertel (1997), the Decision Support Model (DSM) of Cuyvers *et al.* (1995) and Cuyvers and Viviers (2012), and the Market Attractiveness Index (MAI) of the International Trade Centre (ITC, 2008). In light of the uncertainty surrounding the renewal of AGOA (see Section 1.3), the method will be applied in the case of SACU and the USA to identify products and sectors that they should prioritise in bilateral trade negotiations. Section 4.2 contains a visual overview of the product-level prioritisation method and a discussion of each of the elements of the method follows in Sections 4.2.1 to 4.2.7.

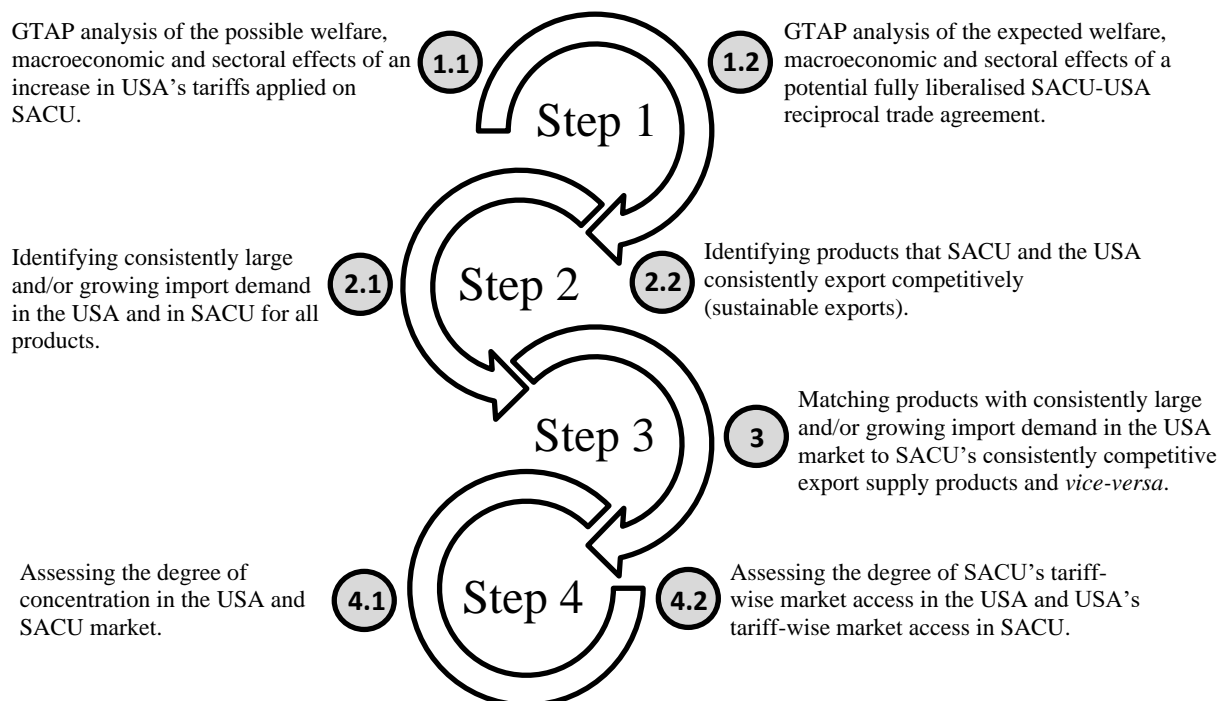
4.2 The product-level prioritisation method developed and applied in this study

A visual overview of the product-level prioritisation method developed and applied in this study to identify priority products and sectors that should be prioritised in bilateral trade negotiations between SACU and the USA is shown in Figure 4.1. The method consists of four steps. The first step simulates the estimated welfare, macroeconomic and sectoral effects of the following two opposite extremes: (i) the possible non-renewal of AGOA and the consequential increase in USA tariffs applied on SACU, in Step 1.1 (see Section 4.2.1); and (ii) a potential fully liberalised SACU-USA reciprocal trade agreement, in Step 1.2 (see Section 4.2.2). The second step identifies: (i) consistently large and/or growing import demand in both SACU and the USA for all products at the HS6-digit level, in Step 2.1 (see Section 4.2.3); and (ii) products that SACU and the USA consistently export competitively, in Step 2.2 (see Section 4.2.4). The third step matches products

⁵⁵ This implies the selection of products for which there is a match between import demand and export supply, with no dominance from competitors, but for which the tariffs can still be negotiated down. This also entails the selection of products with no dominance from competitors, but for which Non-Tariff Measures (NTMs) can still be negotiated down.

with consistently large and/or growing import demand in the USA market to SACU's consistently competitive export supply products and *vice-versa* (see Section 4.2.5).

Figure 4.1: Diagrammatic illustration of the product-level prioritisation method developed in this study



Source: Author's own figure

The fourth step assesses the degree of concentration in the USA and SACU market, in Step 4.1 (see Section 4.2.6); and the degree of SACU's tariff and NTB-wise market access in the USA and USA's tariff-wise market access in SACU, in Step 4.2 (see Section 4.2.7).

A broad discussion of each of the elements of the product-level prioritisation method is provided in Sections 4.2.1 to 4.2.7.

4.2.1 Step 1.1: GTAP analysis of the possible welfare, macroeconomic and sectoral effects of an expected increase in USA tariffs applied on SACU

The possible effect of an expected increase in USA tariffs applied on SACU, when the tariffs revert to MFN levels after the expiry of AGOA in 2025 and the unilateral trade arrangement is not renewed, is analysed in this step using the standard GTAP model. The GTAP model, initially formulated by Hertel (1997), is the most extensively applied Computable General Equilibrium

(CGE) model in the analysis of trade policy (Plummer *et al.*, 2010).⁵⁶ The standard GTAP model is a multiregional, multisectoral CGE model with perfect competition and constant returns to scale (Burfisher, 2017). In the GTAP model, bilateral trade is handled *via* the Armington assumption, which states that products that are manufactured in distinct regions are imperfect substitutes in demand (Armington, 1969; Burfisher, 2017). In other words, products are differentiated not exclusively by their nature, but also by their place of origin.⁵⁷

The GTAP-CGE model is appropriate for analysing the effect of crucial policy transformations such as tariff increases (Zeng, 2013). In fact, the GTAP model can compute the probable outcomes of the tariff increase *ex-ante* by means of mathematical simulation (Rosyadi & Widodo, 2017:12). This simulation method is suitable for this step as there is currently no ex-post data generated from the likely tariff increase if AGOA is not renewed beyond 2025.

This step utilises the static version of the standard GTAP model (Version 10), regarded the latest version following numerous revisions of the standard GTAP model in relation to various modelling concerns (Itakura & Hertel, 2001). The GTAP 10 database features four reference years (i.e. 2004, 2007, 2011 and 2014) along with 141 GTAP regions for all the 65 GTAP sectors (Aguiar *et al.*, 2019). For the model experiment simulated in this step, the 141 GTAP regions are aggregated to 10 new regions, while the 65 GTAP sectors are aggregated to 10 new sectors (see Table 4.1).

Table 4.1: New GTAP regions and sectors used in the model experiment simulated in this step

Region	Description	Sector	Description
Oceania	Australia, New Zealand	GrainsCrops	Grains and Crops
Asia	Asian countries excluding China	MeatLstk	Livestock and Meat Products
SACU	Southern Africa Customs Union	Extraction	Mining and Extraction
China	China	ProcFood	Processed Food
USA	United States of America	TextWapp	Textiles and Clothing
America	American countries excluding the USA	LightMnfc	Light Manufacturing
EU_28	28 European Union Member States	HeavyMnfc	Heavy Manufacturing
ME	Middle-East countries	Util_Cons	Utilities and Construction
Africa	African countries excluding SACU Member States	TransComm	Transport and Communication
ROW	Rest of the World	OthServices	Other Services

Source: Authors' own table based on GTAPAgg database aggregator

⁵⁶ The theory underlying the GTAP model is based on the multisectoral model of the Australian economy, ORANI model, developed by Dixon *et al.* (1982).

⁵⁷ For example, SACU chemicals, USA chemicals, SACU machinery, and USA machinery might be four different products distinguished in the GTAP model (Armington, 1969).

The eight GTAP factors are aggregated to four new factors with labour and capital considered mobile, while land (ETRAE value = -1.000) and natural resources (ETRAE value = -0.001) are considered sluggish (see Table 4.2).

Table 4.2: New GTAP factors used in the model experiment simulated in this step

Production factor	Description	Factor mobility
Land	Land	Sluggish (ETRAE = -1.000)
Labour	Labour	Mobile
Capital	Capital	Mobile
NatRes	Natural Resources	Sluggish (ETRAE = -0.001)

Source: Authors' own table based on GTAPAgg database aggregator

The welfare, macroeconomic and sectoral effects of the possible USA tariff increase are simulated under the following trade protection policy scenario (i.e. Scenario 1): USA tariff policy reform in which its tariffs applied on all imports originating from SACU, revert to MFN levels simulating the non-renewal of AGOA after it expires in 2025. In this regard, the tariffs applied by the USA on its imports from SACU are increased to its average MFN tariff for each GTAP sector (see Table B.1 in Appendix B for the base and updated GTAP import tax rates applied by the USA on SACU).

The “standard general equilibrium closure” of the GTAP model is adopted for the simulation performed in this step. According to Hertel (1997:158-159), under the standard general equilibrium closure, parameters of price elasticity can react to shocks from both the demand and supply side (Hertel, 1997:158-159). Furthermore, the unemployment closure is applied in the case of SACU countries. This is sensible since all SACU countries suffer from high unemployment.

Gragg’s 2-4-6 steps solution method with “automatic accuracy” option permitted is utilised in this step to ensure maximum accuracy of results obtained (Horridge, 2001; Rosyadi & Widodo, 2017:14). The method splits the shock with interpolation into minor increments and iterates the calculation numerous times (Rosyadi & Widodo, 2017:14). The final solutions are obtained from the average values of each iteration’s solution (Rosyadi & Widodo, 2017:14).

The focus of this step is on Scenario 1, which analyses the potential impact of the possible increase in USA tariffs applied on SACU when its tariffs revert to MFN levels if AGOA is not renewed. The following step focuses on Scenario 2, which analyses the expected welfare, macroeconomic and sectoral effects of an opposite extreme to Scenario 1 (i.e. a potential fully liberalised SACU-USA reciprocal trade agreement).

4.2.2 Step 1.2: GTAP analysis of the possible welfare, macroeconomic and sectoral effects of a potential fully liberalised SACU-USA reciprocal trade agreement

This step utilises the same standard static GTAP model specifications, as discussed in Section 4.2.1, to analyse the welfare, macroeconomic and sectoral effects of a potential fully liberalised reciprocal trade agreement between SACU and the USA. A fair trade deal ought to generate positive aggregate welfare, macroeconomic and sectoral effects for all the members to the agreement. In light of this, Scenario 2 simulated the welfare, macroeconomic and sectoral effects of the following ambitious or full trade liberalisation policy reform scenario: SACU-USA full trade liberalisation policy reform in which they eliminate all their import taxes and export subsidies to their bilateral trade (see Table B.2 in Appendix B for the intra-SACU-USA base and updated GTAP tax rates).

Having established, on a macro-level, the possible effects of AGOA expiring without a trade agreement in place between SACU and the USA (Step 1.1/Scenario 1) *versus* a potential full liberalisation of bilateral trade between SACU and the USA (Step 1.2/Scenario 2), a detailed product-level prioritisation analysis follows in Step 2 to Step 4.

4.2.3 Step 2.1: Identifying consistently large and/or growing import demand in the USA and in SACU for all products⁵⁸

This step identifies consistently large and/or growing import demand, in both the USA and SACU, for all products at HS6-digit level. The approach applied in Cuyvers *et al.* (1995:179) and Cuyvers (1997:6; 2004:259-260) to classify markets with large and/or growing import demand, at product-level, is followed in this step. In this regard, three variables (i.e. short-term import growth, long-term import growth, and import market size) are computed for each of the potential product-country combinations in the USA and in SACU, on an annual basis, over a five-year period from 2013 to 2017. The short-term growth of imports is computed as a simple annual import growth rate, while the long-term growth of imports is computed as the compounded annual percentage growth in imports, over a five-year period. The comparative import market size is computed as the ratio of the imports of country *i* for product *j* and the aggregate world imports of product *j* (Cuyvers *et al.*, 1995:178; Cuyvers, 2004:259-260). The USA and SACU import data at HS6-digit level, from 2008 to 2017, is accessible on the UN COMTRADE database.

To identify product-country combinations, in the USA and in SACU, which possess consistently

⁵⁸ This study builds on the research methodology applied in Mhonyera (2017) and Mhonyera *et al.* (2018). Therefore, Steps 2.1 to 3 of the research method applied in this study, draw on Steps 1.1 to 2 of the research methodology applied in the mentioned studies by the authors.

large and/or growing import demand from 2013 to 2017, cut-off values are computed annually, over the five-year period, for each of the respective variables mentioned above. Following Cuyvers (2004:260), cut-off values for the three variables computed in this step are defined as:

Firstly, in order to determine the parameters of the short-term and long-term import growth, a scaling factor (S_j) is defined (Willemé & Van Steerteghem, 1993, as quoted in Cuyvers, 1997:5; 2004:260). The scaling factor permits the consideration of country i 's level of specialisation in exporting product j , when specifying the cut-off values (Cuyvers, 2004:260). According to Cuyvers *et al.* (1995:179), it can be maintained that the cut-off values for demand in the importing country may be less rigorous if the exporting country already specialises in exporting product j as quantified by its Revealed Comparative Advantage (RCA) index (see Equation 4.2).

The algebraic formulation of the scaling factor (S_j) is provided in Equation 4.1 (Willemé & Van Steerteghem, 1993, as quoted in Cuyvers, 1997:5; 2004:260):

$$S_j = 0.8 + \frac{1}{(RCA_j + 0.85) \exp^{(RCA_j - 0.01)}} \quad (4.1)$$

Where:

RCA_j : is the RCA index of the exporting country for product j (Balassa, 1965; Reis & Farole, 2012). RCA_j is algebraically formulated as:

$$RCA_j = \frac{\left(\frac{X_{i,j}}{X_{w,j}} \right)}{\left(\frac{X_{i,tot}}{X_{w,tot}} \right)} \quad (4.2)$$

Where:

$X_{i,j}$: is country i 's exports (i.e. the exports of the country for which priority products for trade negotiations are being identified) of product j ;

$X_{w,j}$: is the world's exports of product j ;

$X_{i,tot}$: is country i 's aggregate exports; and

$X_{w,tot}$: is the world's aggregate exports.

The cut-off values of the three variables are then expressed as in Equation 4.3 (Willemé & Van Steerteghem, 1993, as quoted in Cuyvers, 1997:5; 2004:260):

$$g_{i,j} \geq G_j \quad (4.3)$$

Where:

$g_{i,j}$: is product j 's short- or long-term import growth rate within the importing country i ; and

G_j : is equal to $g_{w,j} S_j$, if $g_{w,j} \geq 0$; or

G_j : is equal to $\frac{g_{w,j}}{S_j}$, if $g_{w,j} < 0$

with $g_{w,j}$ indicating the growth rate of aggregate world imports of product j .

This process is executed annually, for both short- and long-term import growth rates, over a five-year period from 2013 to 2017 (Cuyvers, 1997:6; 2004:260).⁵⁹ If the criteria denoted in Equation 4.3 is fulfilled, each of the respective product-country combinations is allocated “1”, or allocated “0”, if otherwise.

Assuming that the exporting country does not specialise in the exportation of product j (i.e. $0 \leq RCA_j < 1$), product j 's short-term or long-term import growth rate within the importing country i (i.e. $g_{i,j}$) should vary between one and two times the average of product j 's world import growth rate. However, given that the exporting country specialise in the exportation of product j (i.e. $RCA_j \geq 1$), product j 's short-term or long-term import growth rate within the importing country i (i.e. $g_{i,j}$) is allowed to be slightly less than or equal to the average of product j 's world import growth rate (Cuyvers *et al.*, 2012a:62-63).

Furthermore, the comparative size of the import market for product j in country i is regarded sufficiently large if (Cuyvers, 1997:6; 2004:260):

$$M_{i,j} \geq C_j \quad (4.4)$$

Where:

$M_{i,j}$: is product j 's comparative import market size in country i ; and

⁵⁹ Examples: Short-term growth in 2013 = [(Imported value in 2013 – Imported value in 2012) / Imported value in 2012]; and

Long-term compounded growth in 2013 = [(Imported value in 2013 / Imported value in 2009) ^ (1/n)] – 1 where the number of years' $n = 5$.

C_j : is the comparative import market size cut-off value, considering the level of specialisation of the exporting country in the exportation of product j , such that:

$$C_j = 0.02M_{w,j}, \text{ if } RCA_j \geq 1; \text{ or}$$

$$C_j = [(3 - RCA_j) / 100]M_{w,j}, \text{ if } RCA_j < 1$$

with $M_{w,j}$ denoting product j 's aggregate world imports.

Supposing that the exporting country does not specialise in the exportation of product j (i.e. $0 \leq RCA_j < 1$), country i 's imports of product j (i.e. $M_{i,j}$) should vary between 2 to 3% of product j 's aggregate world imports. Similarly, on condition that the exporting country specialises in the exportation of product j (i.e. $RCA_j \geq 1$), product j 's imports within the importing country i (i.e. $M_{i,j}$) should be greater than or equal to 2% of product j 's aggregate world imports (Cuyvers *et al.*, 2012a:62-63).

Once again, this process is executed annually for the comparative import market, over a five-year period from 2013 to 2017. If the criteria denoted in Equation 4.4 is fulfilled, each of the respective product-country combinations is allocated "1", or allocated "0", if otherwise.

In this step, markets with consistently large and/or growing import demand are selected following the classification of product-country combinations shown in Table 4.3 (Cuyvers, 2004:261).

Table 4.3: Classification of product-country combinations in step 2.1

Classification	Short-term import market growth	Long-term import market growth	Comparative import market size
0	0	0	0
1	1	0	0
2	0	1	0
3	0	0	1
4	1	1	0
5	1	0	1
6	0	1	1
7	1	1	1

Source: Cuyvers (2004:261)

The product-country combinations are classified on an annual basis over a five-year period from 2013 to 2017. Those product-country combinations that annually fall within classifications three to seven, over the five-year period, are selected as the markets presenting consistently large and/or

growing import demand in the USA and in SACU. In contrast, product-country combinations that fall within classifications zero to two, in any of the five years under consideration, are eliminated.

Consequently, for a product-country combination to be selected, it must constantly (i.e. over the five-year period from 2013 to 2017) possess an import demand with at least one or a combination of the following qualities: (i) comparatively large import market size (classification 3); or (ii) comparatively high short-term and long-term import growth (classification 4); or (iii) comparatively high short-term import growth along with a comparatively large import market size (classification 5); or (iv) comparatively high long-term import growth together with a comparatively large import market size (classification 6); or (v) comparatively high short-term and long-term import growth coupled with a relatively large import market size (classification 7).

As already mentioned, this study follows the approach applied in Cuyvers *et al.* (1995:179) and Cuyvers (1997:6; 2004:259-260) to classify markets with large and/or growing import demand. Nonetheless, similar to Mhonyera *et al.* (2018), the analysis in this study is repeated annually, over a five-year period from 2013 to 2017, in order to identify those markets (in the USA and SACU, in this case), which possess consistently large and/or growing import demand.

Having determined the product-country combinations, which possess consistently large and/or growing import demand in the USA and in SACU, attention is now positioned on determining SACU and the USA's consistently competitive export supply products, in the following step.

4.2.4 Step 2.2: Identifying products that SACU and the USA consistently export competitively (sustainable exports)

This step focuses on determining SACU and the USA's consistently competitive export supply products. Products that SACU and the USA consistently export competitively (i.e. sustainable exports) are identified.⁶⁰ Following Mhonyera *et al.* (2018), an assumption is made in this study that, if a product is consistently exported with a comparative advantage (i.e. $RTA > 0$ and $RCA \geq 1$), over a five-year period, it can be classified as a sustainable export.

Even though the Revealed Comparative Advantage (RCA) index is commonly utilised to quantify a country's relative competitiveness in exporting a specific product, it merely accounts for exports, disregarding the probability that a country may essentially be a net importer of the product (Jessen & Vignoles, 2004). Accordingly, the Revealed Trade Advantage (RTA) index, which considers both exports and imports, is employed in this step as a proxy for quantifying international product-

⁶⁰ The data for exports and imports of SACU, the USA, and the world from 2008 to 2017 at HS6-digit level is available at UN COMTRADE database (<http://comtrade.un.org/data/>).

level export competitiveness (Vollrath, 1991; Steenkamp *et al.*, 2015). The RTA index is computed through subtracting a country's Revealed Import Advantage (RMA) index, for a specific product, from its respective RCA index.

The RCA index is a measure of international trade specialisation. It quantifies a country's degree of speciality in the exportation of a specific product, through dividing the product's share in the exports of the country by its share in world exports (Jessen & Vignoles, 2004). The algebraic formulation of the RCA index is shown in Equation 4.2. An RCA index greater than or equal to one indicate that a country comparatively specialises in the exportation of the product in question (Balassa, 1965; Cuyvers *et al.*, 1995:179). Furthermore, an RCA index near zero indicate that a country slightly exports the product in question, while an RCA index equal to zero indicate that a country does not export the product in question at all.

The RMA index, in contrast to the RCA index, quantifies a country's degree of speciality in the importation of a particular product through dividing its share in the country's imports by the share of the product in world imports (Jessen & Vignoles, 2004). Hence, the RMA index of product j is algebraically formulated as:

$$RMA_j = \frac{\left(\frac{M_{i,j}}{M_{w,j}} \right)}{\left(\frac{M_{i,tot}}{M_{w,tot}} \right)} \quad (4.5)$$

Where:

$M_{i,j}$: is country i 's imports of product j ;

$M_{w,j}$: is the world's imports of product j ;

$M_{i,tot}$: is country i 's aggregate imports; and

$M_{w,tot}$: is the world's aggregate imports.

An RMA index greater than or equal to one indicates that a country relatively specialises in the importation of the product in question. Additionally, an RMA index near zero indicates that a country slightly imports the product in question, while an RMA index equal to zero indicates that a country does not import the product in question at all.

The RTA index of product j (see Equation 4.6) is obtained by subtracting Equation (4.5) from (4.2).

Thus:

$$RTA_j = RCA_j - RMA_j = \frac{\left(\frac{X_{i,j}}{X_{w,j}} \right) - \left(\frac{M_{i,j}}{M_{w,j}} \right)}{\left(\frac{X_{i,tot}}{X_{w,tot}} \right) - \left(\frac{M_{i,tot}}{M_{w,tot}} \right)} \quad (4.6)$$

As mentioned, the RTA index, which considers both exports and imports, is utilised as a proxy for quantifying international product-level export competitiveness (Vollrath, 1991; Steenkamp *et al.*, 2015). An RTA index greater than zero reveals a positive trade competitiveness or relative trade advantage (Vollrath, 1991; Steenkamp *et al.*, 2015). Consequently, it is acceptable that an RTA index greater than zero points out that most of the products exported by a particular country are locally manufactured, as the index adjusts for re-exports (Vollrath, 1991; Steenkamp *et al.*, 2015).

In this step, three indices, namely RCA, RMA and RTA are computed for every product (at HS6-digit level) that is exported by SACU and the USA over a five-year period from 2013 to 2017. Following Cuyvers *et al.* (2012b), $RTA > 0$ and $RCA \geq 1$ are utilised as the criteria for selecting products that SACU and the USA consistently exports competitively (i.e. sustainable exports). This means that SACU or the USA is a net-exporter of the particular product (i.e. $RTA > 0$), and the RCA index of SACU or the USA in exporting that particular product is greater than or equal to one (indicating export specialisation).

However, unlike the USA, which is a developed country, SACU consists of developing countries whose production capacity is not comparable to that of the USA in many cases. Emanating from this, the selection criteria are relaxed in the case of SACU where the RCA index is permitted to be at least greater than 0.7. Products that conform to the selection criteria are indicated by “1” annually, from 2013 to 2017, or are indicated by “0” if otherwise. Products that constantly conform to the selection criteria (i.e. with “ $RTA > 0$ and $RCA \geq 1$ ”, in the case of the USA, and “ $RTA > 0$ and $RCA > 0.7$ ”, in the case of SACU) annually, over the five-year period from 2013 to 2017, are selected as the products that SACU and the USA consistently export competitively (i.e. sustainable exports).

After identifying the USA and SACU’s consistently large and/or growing import demand along with SACU and the USA’s sustainable exports in step 2.1 and 2.2, respectively, the following step comprises the matching of the USA and SACU’s product-country combinations, characterised by

consistently large and/or growing import demand, to SACU and the USA's consistently competitive export supply products.

4.2.5 Step 3: Matching import demand in the USA market to SACU's export supply and *vice-versa*

In this step, the USA and SACU's consistently large and/or growing import demand is matched to SACU and the USA's consistently competitive export supply products at HS6-digit level. Only those product-country combinations that consistently fulfilled the selection criteria stipulated in steps 2.1 and 2.2, are selected in this step. Therefore, those product-country combinations characterised by consistently large and/or growing import demand within the USA and SACU, but for which SACU or the USA cannot export the products consistently competitively (i.e. unsustainable exports), are eliminated in this step. This also relates to those product-country combinations, which are not identified with consistently large and/or growing import demand within the USA and SACU, despite SACU or the USA possessing the competence to export the products consistently competitively.

The degree of market concentration and tariff-wise market access for the matched products (i.e. sustained export opportunities), selected in this step, are assessed in Steps 4.1 (see Section 4.2.6) and 4.2 (see Section 4.2.7), respectively.

4.2.6 Step 4.1: Assessing the degree of concentration in the USA and SACU market

According to Cuyvers *et al.* (1995:180), being selected based on consistently large and/or growing import demand (as in Step 2.1 of this study) does not necessarily mean that the market is easy to enter. Therefore, it is crucial to consider the degree of concentration of each particular market. This assists in determining whether the market is monopolistic or more competitive. A specific import market is considered concentrated if only a few exporting countries possess a large market share and, as a result, are well established and more knowledgeable of the market (Cuyvers *et al.*, 1995:180). A market with a high degree of concentration is very difficult to enter. To confirm the importance of taking the degree of concentration of a particular market into consideration, Cuyvers *et al.* (1995:180) revealed that there is a negative correlation between market concentration and export performance. Hence, it is inefficient to channel resources to heavily concentrated markets as the chances of export survival are minimal.

This study utilises the HHI of Hirshmann (1964) to measure the degree of concentration in a specific market. The HHI is mathematically formulated as:

$$HHI_{ij} = \sum \left(\frac{X_{k,ij}}{M_{tot,ij}} \right)^2 \quad (4.7)$$

Where:

$HHI_{i,j}$: is the HHI of country i (which is the importer) of product j ;

$X_{k,ij}$: is the exports of country k to country i for product category j ; and

$M_{tot,ij}$: is the total imports of country i for product category j .

If the importing country is only supplied by one exporting country, HHI is equal to 1. However, if the importing market is supplied by many exporting countries, HHI is closer to 0. In other words, an HHI closer or equal to 1 indicates a higher market concentration, while an HHI closer or equal to 0 indicates a lower market concentration. Importing markets with a relatively high HHI are therefore difficult for exporting countries to enter (Cuyvers *et al.*, 1995:180; Cuyvers 2004:261; Cuyvers *et al.*, 2017).⁶¹

Following Cuyvers *et al.* (2017), those matched product-country combinations with an HHI < 0.5 are considered to be characterised by a low degree of market concentration, while those products with an HHI ≥ 0.5 are considered to be characterised by a high degree of market concentration. While this step focuses on assessing the degree of concentration in the import market, the selected sustained export opportunities are subjected to further analysis in Step 4.2 in which the degree of tariff-wise accessibility of the import market is assessed.

4.2.7 Step 4.2: Assessing the degree of SACU's tariff-wise market access in the USA and USA's tariff-wise market access in SACU

In this step, the degree of SACU's tariff-wise market access in the USA and USA's tariff-wise market access in SACU is assessed at HS6-digit level. The market access dimension of the MAI of the ITC (2008), which refers to the tariff conditions set by countries for the entry of specific products into their markets, will be used in this study to measure the degree of tariff-wise market access. The general rule is that the easier the tariff-wise market access conditions are, the more

⁶¹ Most of the export opportunities for the USA, identified in Botswana, Lesotho, Namibia and Eswatini are concentrated by South Africa. Hence, such export opportunities were considered as possessing low market concentration if South Africa is a net importer of the products (i.e. if South Africa's RTA index is less than zero).

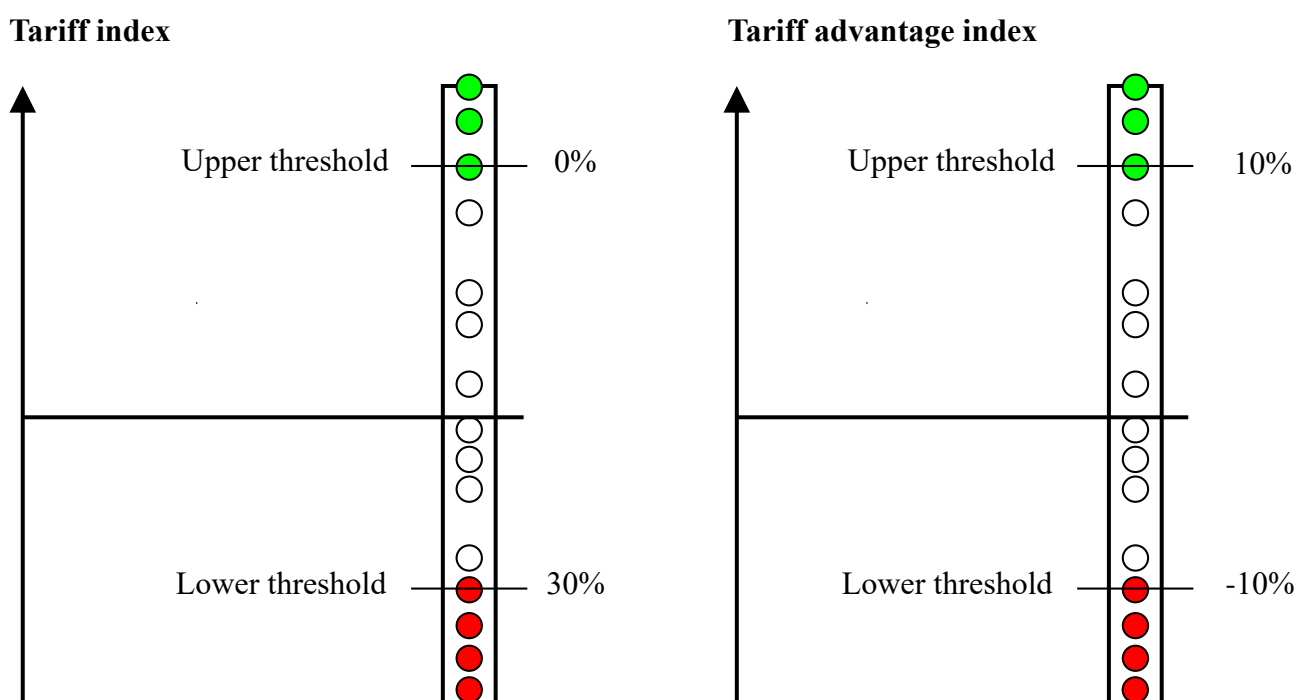
competitive the exporters become in foreign markets. The variables used to measure the degree of tariff-wise market access in this study are maximum tariffs applied to the exporting country (%) and the exporting country's tariff advantage or disadvantage (%). The tariff charged to the exporting country is the duty charged to imports of exporting country's products in a specific country. The tariff (dis)advantage is the difference between the average tariff charged to the top five competitors in the importing market and the tariff charged to the exporting country under consideration. Therefore, an exporting country has a tariff advantage if the tariff it pays in the importing country is lower than the average tariff charged to the top five competitors in the market.

To combine the two variables into one measure, composite indexing is utilised (ITC, 2008). The formula in Equation 4.8 is used to convert the tariff and tariff advantage percentage values into indices. The index values lie between 0 and 100.

$$\frac{Value - Lower\ threshold}{Upper\ threshold - Lower\ threshold} \times 100 \quad (4.8)$$

Therefore, when converting indicators into indices, the upper and the lower threshold have to be defined. In this case, the thresholds are defined according to economic considerations based on the ITC (2008).

Figure 4.2: Visual illustration of upper and lower threshold of the tariff and tariff advantage indices



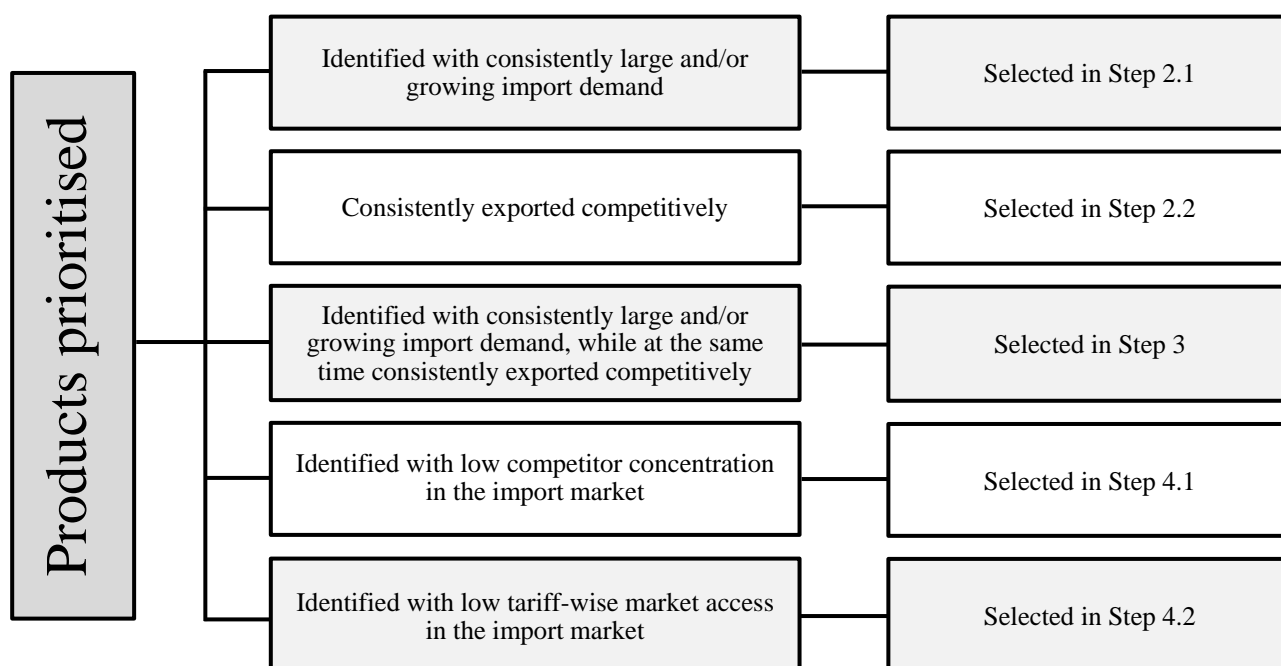
Source: ITC (2008)

As shown in Figure 4.2, an upper threshold of 0% tariff and a lower threshold of 30% tariff are used when converting tariffs into a tariff index. In addition, an upper threshold of 10% tariff and a lower threshold of -10% tariff are used when converting tariff advantage into a tariff advantage index. The thresholds are used to accommodate for outliers.

For the calculation of the ease of tariff-wise market access index, the indices of tariff and tariff advantage are allocated equal weights (i.e. 50% for tariffs and 50% for tariff advantage). In this step, a sustained export opportunity with an index value below 75 (indicating a tariff > 0% and/or a tariff disadvantage) is considered to have a low tariff-wise market access. This means that tariffs are higher than 0% and therefore need to be negotiated down. An index of 75 and above corresponds to export opportunities where the SACU or the USA already levies a 0% tariff and there is no difference between the tariff charged to the exporter concerned and the top five competitors (tariff advantage is 0%). Therefore, those sustained export opportunities identified with low market concentration (see Section 4.2.6) and low tariff-wise market access in the USA and in SACU, are identified as products that SACU and the USA should prioritise in bilateral trade negotiations between the two parties. The assumption here is that SACU and the USA only benefits from the WTO's MFN principle and do not enjoy any other preferential access in each other's market.

A visual illustration of the selection criteria used in this study to identify products and sectors that should be prioritised in bilateral trade negotiations is shown in Figure 4.3.

Figure 4.3: Illustration of the criteria used in this study to identify products and sectors that should be prioritised in bilateral trade negotiations



Source: Author's own figure

Step 1 of the research method applied in this study serves as an evaluation step for the necessity and feasibility, in terms of welfare, of engaging in the potential bilateral trade negotiations. Hence, this step does not form part of the steps that constitute the criteria for selecting priority products and sectors for bilateral trade negotiations.

As mentioned, to identify products that should be prioritised for bilateral trade negotiations, sustained export opportunities identified with low market concentration and low tariff-wise market access are of particular interest in this study. However, those sustained export opportunities that possess low market concentration and a high tariff-wise market access are assessed, in terms of Non-Tariff Measures (NTMs), for qualification as additional priority products. In this regard, *ad-Valorem* Equivalents (AVEs) of NTMs of such export opportunities are used as a basis for selection. The AVEs of NTMs utilised in this study were accessed from the World Bank AVEs of NTMs database (WB, 2018b). This data is based on the approximation method developed in Kee and Nicita (2017), which sequentially builds on the seminal work of Kee *et al.* (2009).

According to the World Bank (2018), as with most of the econometric literature approximating AVEs, the effects of NTMs on international trade are isolated using incidence measures of NTMs as explanatory variables. Following Kee and Nicita (2017), the AVEs are computed as the equivalent tariff that would be required to levy so as to attain identical proportionate change in the quantity imported as a result of the existence of NTMs. In other words, the approximation procedure seeks to identify the immediate semi-elasticity of trade relating to variations in the observed tariffs, and apply this elasticity to the approximated effects of NTMs on the quantity of trade (WB, 2018b).

The AVEs of NTMs database of the World Bank covers two types of NTMs, namely technical measures and non-technical measures (WB, 2018b). AVEs of technical measures captures the effects of Sanitary and Phytosanitary Measures (SPS) and Technical Barriers to Trade (TBT). SPS are conditions limiting the utilisation of particular substances, health requirements or other measures for inhibiting the spread of diseases. The measures also include conformity assessment procedures relating to food safety, such as certification, testing and inspection, and quarantine. TBT comprises labelling requirements and conformity assessment measures relating to technical product requirements, including certification, testing and inspection (UNCTAD, 2015).

AVEs of non-technical measures captures the effects of contingent trade measures, quantitative restrictions, price controls and finance measures. Contingent trade measures are measures used to neutralise negative effects of imports, including antidumping, countervailing, and safeguarding measures. Quantitative restrictions include licensing requirements, quotas as well as other quantity

control measures, and import prohibitions that are not related to SPS and TBT. Price controls are measures to control or affect the prices of imported goods to support or stabilise the domestic prices of competing products or raise tax revenue. Lastly, finance measures are policies limiting payments for imports, including regulation of access and cost of foreign exchange as well as terms of payments (UNCTAD, 2015).

Data in the World Bank AVEs of NTMs database covers 40 importing countries, including the USA and the EU countries (WB, 2018b).⁶² AVEs are interpreted as the average costs related to the NTMs when the product is imported (WB, 2018b). Data is in percentage points (e.g. AVE = 2 is equivalent to a tariff of 2%). Zero values indicate no effects, while missing values indicate that the AVEs could not be reliably estimated. Other non-tariff barriers to market access, including trade time, trade cost, infrastructure, logistics and border efficiency, are country-level measures. For the purposes of this study, which is a bilateral analysis on a detailed product-level, these market access measures were not considered.

To conclude this chapter, a summary of the product-level prioritisation method, developed and applied in this study to identify priority products and sectors to inform the potential SACU-USA bilateral trade negotiations, is provided in Section 4.3 below.

4.3 Summary

Chapter 2 established the theoretical basis of this study and provided a review of literature relating to free trade and the international political economy, trade negotiations, trade negotiation and trade policy analysis capacity constraints, trade agreements, and market access. An overview of SACU-USA trade relations as well as the trade policy of SACU and the USA was discussed in Chapter 3. This chapter provided a discussion of the product-level prioritisation method developed and applied in this study to identify priority products and sectors to inform bilateral trade negotiations between SACU and the USA (see Figure 4.1).

Identification of these priority products, as part of the activities undertaken in the preparation phase of the bilateral trade negotiation process is crucial, more especially, in the case of SACU members that may be faced with trade policy analysis and negotiation capacity constraints. Furthermore, the research approach enhances the fairness of the trade deal as it enables both SACU and the USA to include, but not limited to, a basket of products that they can produce and consistently export competitively, while at the same time possessing consistently large and/or growing import demand

⁶² All SACU countries are not included in the importing countries covered in the database. This entails the analysis of only those export opportunities for SACU in the USA possessing high tariff-wise market access as additional priority products for SACU, based on NTMs.

in the importing market. Besides considering the differences in the members' core export competencies and the size, growth and consistency of the import demand, survival and sustainability of bilateral export initiatives between SACU and the USA are also preserved.

The product-level prioritisation method employed in this study consists of four steps. Step 1.1 and 1.2 of the method give a macro-level context to the implications of AGOA expiring with no alternative SACU-USA reciprocal trade agreement in place *versus* a potential fully liberalised reciprocal trade agreement between SACU and the USA. In other words, the steps serve as a measure of assessment of the possible welfare, macroeconomic and sectoral effects emanating from a trade protectionist policy reform (i.e. Step 1.1/Scenario 1) or a trade liberalisation policy reform (i.e. Step 1.2/Scenario 2) on bilateral trade between SACU and the USA, from the perspective of both parties. This is the basis of substantiating the importance for SACU and the USA to consider initiating bilateral trade negotiations in preparation of the possible non-renewal of AGOA after it expires in 2025. Steps 2.1 to 4.2 serve as the selection criteria used to identify the products and sectors that SACU and the USA should prioritise in the negotiations of the potential trade deal.

As mentioned, sustained export opportunities that possess low market concentration and tariff-wise market access are of particular interest in this study. However, those sustained export opportunities that possess low market concentration and a high tariff-wise market access are assessed in terms of NTMs, for qualification as additional priority products. In this regard, AVEs of NTMs of such export opportunities are used as a basis of selection.

The results of this study are presented and analysed in Chapter 5 and Chapter 6, respectively. Chapter 5 presents the results of the GTAP analysis of the possible welfare, macroeconomic, and sectoral effects of Scenario 1: expiry of AGOA with no alternative SACU-USA reciprocal trade agreement in place (i.e. reverting to MFN tariffs) *versus* Scenario 2: a potential fully liberalised reciprocal trade agreement between SACU and the USA. Chapter 6 elaborates on the results of the priority products and sectors identified in this study to inform the potential SACU-USA bilateral trade negotiations in light of the possible non-renewal of AGOA after it expires in 2025.

CHAPTER 5: WELFARE, MACROECONOMIC AND SECTORAL CONTEXT TO THE POTENTIAL SACU-USA TRADE NEGOTIATIONS

5.1 Introduction

The research method employed in this study to identify priority products and sectors in order to inform the potential SACU-USA bilateral trade negotiations in light of the possible non-renewal of AGOA after it expires in 2025, was discussed in Chapter 4. As mentioned in Section 1.2, product level prioritisation is crucial, not only in addressing the capacity constraints that some developing countries may exhibit, but also in contributing to inclusive trade agreements with greater implementation support. In addition, given the significance of exports in the economic growth and development prospects of SACU Member States, it is crucial that SACU countries gain from the potential SACU-USA bilateral trade negotiations.

As shown in Figure 4.1, the research method consists of four steps. The results of Step 1, which simulates the estimated welfare, macroeconomic and sectoral effects of the following two possible opposite extremes: (i) an increase in USA's tariffs applied on SACU, when its tariffs revert to the MFN levels should AGOA expire and is not renewed in 2025 (Step 1.1/Scenario 1); and (ii) a fully liberalised trade policy reform in which SACU and the USA eliminate all their import taxes and export subsidies to their bilateral trade (Step 1.2/Scenario 2), are presented and analysed in this chapter.

The purpose of the GTAP analysis results is to give a macro-level context to the implications of Scenario 1: AGOA expiring with no alternative SACU-USA reciprocal trade agreement in place (see Section 4.2.1) *versus* Scenario 2: a fully liberalised reciprocal trade agreement between SACU and the USA (see Section 4.2.2). This quantitatively substantiate the need for pro-active trade negotiations between SACU and the USA given the uncertainty surrounding the renewal of AGOA.

Section 5.2 presents and analyse the results of Step 1.1, while the results of Step 1.2 are presented and analysed in Section 5.3. A summary of the results obtained in both Steps 1.1 and 1.2 is provided in Section 5.4, which concludes this chapter.

5.2 The results of Scenario 1: AGOA expiry

The results of the potential welfare effects of the possible increase in USA tariffs applied on SACU, under Scenario 1, are presented and analysed in Section 5.2.1. The subsequent sections (i.e.

Sections 5.2.2 and 5.2.3) presents and analyse the results of the potential macroeconomic and sectoral effects of the possible USA tariff increase, under the same scenario, respectively.

5.2.1 Potential welfare effects under Scenario 1

The Equivalent Variation (EV), which is defined as a money metric measure of the value to the consumer of the price changes due to a shock, was utilised to measure the potential welfare effects emanating from the possible increase in USA tariffs applied on SACU. According to Burfisher (2017), the EV compares the cost of pre- and post-shock levels of consumer utility, both valued at base year (i.e. 2014) prices. The GTAP simulation results of the decomposition of the EV of the possible USA tariff increase reveals a US\$540.74 million welfare loss for SACU (see Table 5.1). All the EV components of SACU are expected to deteriorate, with the endowment effect⁶³ (-US\$234.08 million), Terms of Trade (TOT) effect⁶⁴ (-US\$156.90 million), and the allocative efficiency effect⁶⁵ (-US\$147.97 million) being the major contributors to SACU's welfare loss.

The USA, on the other hand, is estimated to achieve US\$67.40 million welfare gain from the possible tariff increase. This is about 10 times smaller in comparison to the welfare gain attained by the USA under Scenario 2 (see Table 5.8).

Table 5.1: Decomposition of the Equivalent Variation (EV) under Scenario 1 (2014 US\$ million)

	Allocative Efficiency Effect	Endowment Effect	Terms of Trade Effect	TOT in Investment and Savings	Total
Oceania	0.53	0.00	-5.17	-0.47	-5.11
Asia	3.82	0.00	47.79	-3.44	48.17
SACU	-147.97	-234.08	-156.90	-1.79	-540.74
China	14.14	0.00	42.46	-13.96	42.64
USA	-3.19	0.00	47.54	23.06	67.40
America	8.93	0.00	13.28	5.06	27.27
European Union	7.31	0.00	25.99	-2.66	30.64
Middle-East	-0.70	0.00	-16.47	-1.07	-18.24
Africa	1.63	16.62	11.23	-2.70	26.78
Rest of World	-3.86	0.00	-9.89	-2.03	-15.78
Total (World)	-119.37	-217.46	-0.13	0.00	-336.96

Source: GTAP 10 model simulation

⁶³ These are welfare gains emanating from changes in the availability of primary production factors (Hanslow, 2000).

⁶⁴ This is the ratio of the world (Free on Board, FOB) price of a country's export good(s) relative to the FOB price of its import good(s). It measures the import purchasing power of exports (Burfisher, 2017).

⁶⁵ These are welfare effects resulting from reallocation of existing resources (Deardorff, 2016).

Much of the USA's welfare gain (i.e. US\$47.54 million) originates from its TOT effect, despite a deterioration in the region's allocative efficiency effect by US\$3.19 million. With the exception of Oceania (-US\$5.11 million), Rest of World (-US\$15.78 million), and the Middle-East (-US\$18.24 million), all the other regions achieve minor welfare gains as a result of the possible USA tariff increase. However, the welfare losses from the possible USA tariff increase outweighs the welfare gains resulting in a US\$336.96 million global welfare loss.

5.2.2 Potential macroeconomic effects under Scenario 1

In terms of macroeconomic effects, the possible USA tariff increase is expected to diminish the real GDP of SACU by 0.10%. As shown in Table 5.2, the tariff increase does not affect the real GDP of the USA as well as the real GDP of all the other regions. The GTAP simulation results also reveal an estimated decline in the import and export volumes of both SACU and the USA. The magnitudes of these declines are greater for SACU with a 0.10% decline in export volume and 0.42% decline in import volume. In comparison to SACU, the USA's export and import volumes are expected to decline smaller magnitudes of 0.02% and 0.01%, respectively. For all the other regions, the export and import volumes are anticipated to remain unchanged.

The possible USA tariff increase is also expected to improve the trade balances of both SACU and the USA by US\$287.68 million and US\$46.91 million, respectively. In the case of SACU, the improvement in its trade balance may be partly explained by the decline in its import volumes, which is approximately four times relative to the decline in its export volumes.

Table 5.2: Estimated macroeconomic effects under Scenario 1

	Real GDP (%)	Export Volume (%)	Import Volume (%)	Terms of Trade (%)	Trade Balance (2014 US\$ million)	Equivalent Variation (2014 US\$ million)	Regional Household Income (%)
Oceania	0.00	0.00	0.00	0.00	-2.81	-5.11	0.00
Asia	0.00	0.00	0.00	0.00	-72.92	48.17	0.00
SACU	-0.10	-0.10	-0.42	-0.12	287.68	-540.74	-0.33
China	0.00	0.00	0.00	0.00	-78.37	42.64	0.00
USA	0.00	-0.02	-0.01	0.00	46.91	67.40	0.00
America	0.00	0.00	0.00	0.00	-65.15	27.27	0.00
European Union	0.00	0.00	0.00	0.00	-73.43	30.64	0.00
Middle-East	0.00	0.00	0.00	0.00	-14.7	-18.24	0.00
Africa	0.00	0.00	0.00	0.00	-10.57	26.78	0.00
Rest of World	0.00	0.00	0.00	0.00	-16.66	-15.78	0.00

Source: GTAP 10 model simulation

The trade balances of all the other regions are expected to deteriorate. Losers include China whose trade balance deteriorates by US\$78.37 million, the EU (-US\$73.43 million), Asia (-US\$72.92 million), and America, excluding the USA (-US\$65.15 million). While the regional household income⁶⁶ of SACU is estimated to deteriorate by 0.33%, the regional household income of all the other regions is expected to remain unchanged.

Table 5.3: Estimated effects on regional consumption expenditure under Scenario 1 (% change)

Region	Private consumption	Government consumption
Oceania	0.00	0.00
Asia	0.00	0.00
SACU	-0.32	-0.19
China	0.00	0.00
USA	0.00	0.00
America	0.00	0.00
European Union	0.00	0.00
Middle-East	0.00	0.00
Africa	0.00	0.00
Rest of World	0.00	0.00

Source: GTAP 10 model simulation

The possible USA tariff increase is also expected to negatively affect the regional consumption expenditure of SACU. As shown in Table 5.3, both private consumption and government consumption of SACU are anticipated to deteriorate by 0.32% and 0.19%, respectively. Regional consumption expenditure patterns of the USA and all the other regions are expected to remain unchanged in terms of both private and government consumption.

5.2.3 Potential sectoral effects under Scenario 1

The GTAP simulation results of the estimated sectoral effects of the possible increase in USA tariffs applied on SACU, if AGOA is not renewed and USA tariffs applied on SACU revert to the WTO's MFN levels, are presented in Table 5.4 to 5.6 and in Figure 5.1 in this section. As revealed in Table 5.4, the bilateral traded quantities between SACU and the USA are expected to deteriorate in all non-service sectors, in the case of SACU exports to the USA, and in all sectors, in the case of USA exports to SACU. However, the magnitudes of the expected deteriorations in bilateral export growth between SACU and the USA are greater, from SACU's standpoint, and minimal, from the USA's standpoint.

⁶⁶ Regional household income measures the Net Domestic Product (NDPr), which includes only new investment, net of depreciation (Burfisher, 2017).

In terms of SACU exports to the USA, foremost losers include: the textiles and clothing sector, in which the growth of SACU exports to the USA is expected to decline by 45.27%; grains and crops (-14.13%); light manufacturing (-13.91%); and the heavy manufacturing sector (-13.32%). In terms of USA exports to SACU, the expected effects are much lower and losers include: the livestock and meat products sector, in which the growth of USA exports SACU is expected to decline by 0.89%; textiles and clothing (-0.80%); light manufacturing (-0.65%); and the heavy manufacturing sector (-0.63%); and processed food sector (-0.55%).

Table 5.4: Estimated bilateral traded quantities between SACU and the USA under Scenario 1 (% change)

Sector	Total bilateral export growth		
	SACU to USA	USA to SACU	Intra-SACU
Grains and crops	-14.13	-0.45	0.29
Livestock and meat products	-5.28	-0.89	0.28
Mining and extraction	-3.20	-0.19	0.26
Processed food	-3.81	-0.55	0.19
Textiles and clothing	-45.27	-0.80	0.43
Light manufacturing	-13.91	-0.65	0.36
Heavy manufacturing	-13.32	-0.63	0.45
Utilities and construction	0.70	-0.48	0.22
Transport and communication	0.74	-0.46	0.28
Other services	0.75	-0.49	0.26

Source: GTAP 10 model simulation

While the bilateral trade between SACU and the USA is expected to deteriorate in general, intra-SACU trade improves with much smaller percentages in all the sectors. Although the magnitudes of the changes are small, winners in this regard include: the heavy manufacturing sector with a 0.45% improvement in intra-SACU exports; textiles and clothing (0.43%); and the light manufacturing sector (0.36%).

The estimated impact of the possible USA tariff increase on SACU's industrial output is shown in Table 5.5. SACU's industrial output is expected to improve mainly in the following sectors: mining and extraction (0.17%); and grains and crops sector (0.15%). The most affected sector in SACU is the textiles and clothing sector whose industrial output is expected to decline by 1.08%. For the USA, only the industrial output of the textiles and clothing sector is expected to improve by 0.02%, while the output of all the other sectors remains unchanged.

Table 5.5: Estimated effects on SACU and USA's industrial output under Scenario 1 (% change)

Sector	SACU	USA
Grains and crops	0.15	0.00
Livestock and meat products	0.01	0.00
Mining and extraction	0.17	0.00
Processed food	0.03	0.00
Textiles and clothing	-1.08	0.02
Light manufacturing	-0.20	0.00
Heavy manufacturing	-0.05	0.00
Utilities and construction	-0.25	0.00
Transport and communication	-0.08	0.00
Other services	-0.11	0.00
Consumer goods	-0.43	0.00

Source: GTAP 10 model simulation

Table 5.6 shows the estimated impact of the possible increase in USA tariffs on the demand for endowments for use in SACU. With the exception of the grains and crops sector as well as the mining and extraction sector, the demand for land and labour for use in SACU is expected to decline in all the sectors.

Table 5.6: Estimated effects on demand for endowments for use in SACU under Scenario 1 (% change)

Sector	SACU			
	Land	Labour	Capital	Natural resources
Grains and crops	0.06	0.14	0.18	0.00
Livestock and meat products	-0.08	-0.01	0.05	0.00
Mining and extraction	0.14	0.21	0.24	0.00
Processed food	-0.14	-0.05	0.10	0.00
Textiles and clothing	-0.62	-1.12	-0.96	0.00
Light manufacturing	-0.24	-0.28	-0.11	0.00
Heavy manufacturing	-0.19	-0.15	0.01	0.00
Utilities and construction	-0.26	-0.34	-0.16	0.00
Transport and communication	-0.21	-0.20	0.01	0.00
Other services	-0.20	-0.18	-0.02	0.00
Consumer goods	-0.35	-0.50	-0.37	0.00

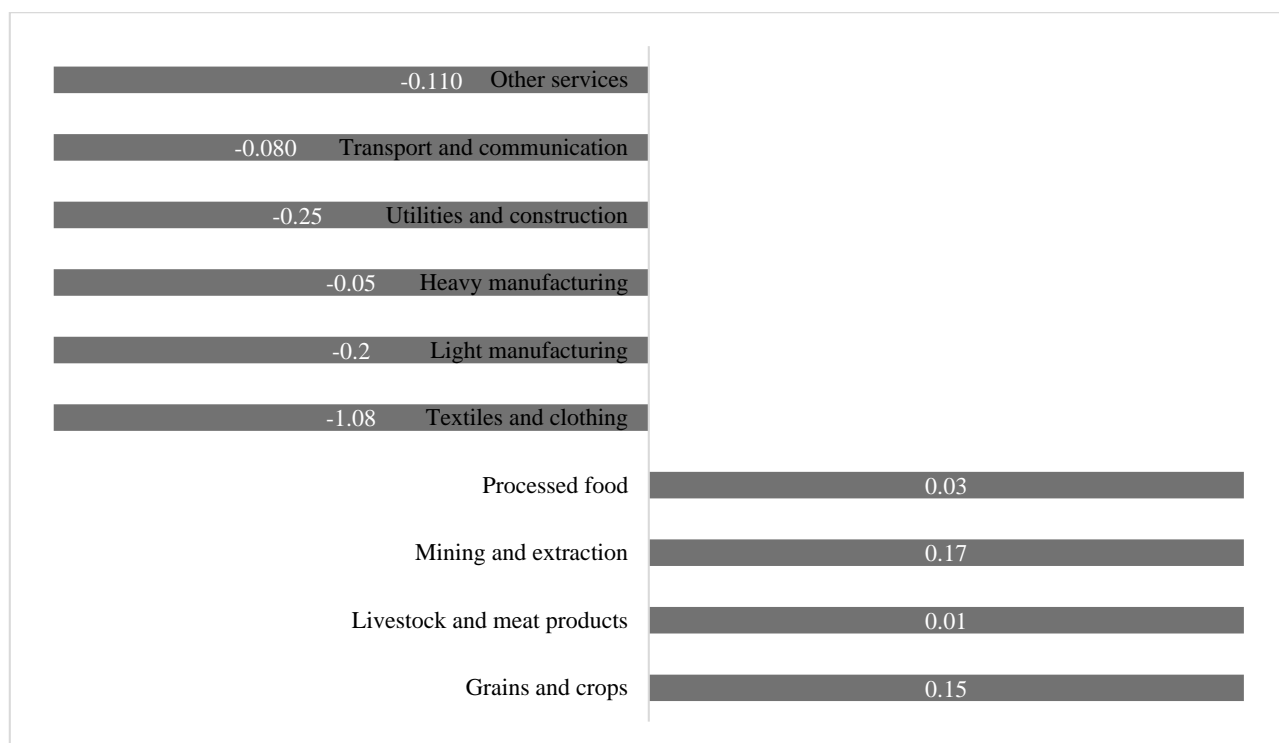
Source: GTAP 10 model simulation

The most affected non-services sectors are: textiles and clothing with a 0.62% estimated decline in land and a 1.12% estimated decline in labour; light manufacturing with a 0.24% estimated decline in land and a 0.28% estimated decline in labour; and heavy manufacturing with a 0.19% estimated decline in land and a 0.15% estimated decline in labour. Overall, the demand for land declines by 2.09%, while the demand for labour declines by 2.48%. This indicates an expected underutilisation of land and rising unemployment in the SACU region.

The capital endowment for use in SACU’s textiles and clothing sector as well as the light manufacturing sector is also expected to decline by 0.96% and 0.11%, respectively. In all the other non-services sectors, capital endowment for use in those sectors is expected to improve with winners being the mining and extraction sector (0.24%), the grains and crops sector (0.18%) and the processed food sector (0.10%). In general, the demand for capital endowment for use in SACU is expected to decline by 1.03%.

The estimated change in the value added in SACU industries is shown in Figure 5.1. Some of the industries in SACU benefit, in terms of value addition, from the possible USA tariff increase.

Figure 5.1: Estimated value added in SACU industries under Scenario 1 (% change)



Source: Authors’ own figure based on GTAP 10 model simulation

Improvements are expected in the mining and extraction sector, where value added improves by 0.17%, and in the grains and crops sector, where value added improves by 0.15%. The processed

food sector as well as the livestock and meat sector are also expected to achieve minimal improvements of 0.03% and 0.01%, correspondingly, in value added.

However, the possible USA tariff increase diminishes value addition in other sectors with noticeable non-services losers emerging as the textiles and clothing sector, whose value added declines by 1.08%, and the light manufacturing sector, whose value added declines by 0.2%. Value added in SACU's consumer goods sector is also estimated to deteriorate by 0.43%. Such deterioration in value addition has a negative effect on the competitiveness of the specific SACU industries. It also has a negative effect on the export revenue earned by SACU exporters, as the price of products exported in an unprocessed form is typically low.

The results of the trade diversion effects of the possible USA tariff increase are presented and analysed in the following section.

5.2.4 Trade diversion effects under Scenario 1

As expected, export diversion incidences were present in the GTAP simulation results of the increase in USA tariffs, projecting a deterioration in SACU's real exports to the USA by US\$1.08 billion and increasing SACU's exports towards trading partners in other regions by US\$899.39 million (see Table 5.7). The import pattern of the USA also changes with a deterioration in USA's real imports from SACU by US\$1.08 billion, while its imports from all the other regions improves by US\$802.86 million. Intra-SACU exports are also expected to improve by a smaller amount of US\$58.20 million.

Table 5.7: Export diversion effects of the increase in USA tariffs under Scenario 1 (2014 US\$ million)

Region	Change in real SACU exports	Change in real USA imports
Oceania	12.42	5.54
Asia	203.33	191.84
SACU	58.20	-1083.51
China	116.73	202.32
USA	-1083.51	0.00
America	37.73	154.87
European Union	260.69	174.90
Middle-East	60.28	35.09
Africa	163.35	12.28
Rest of World	44.86	26.02
Total (World)	-125.92	-280.65

Source: GTAP 10 model simulation

The diversion of SACU's exports is expected to have a significant impact in the EU where the real exports of SACU are expected to improve by US\$260.69 million. SACU's real exports are also expected to considerably improve in: Asia, where its real exports are expected to improve by US\$203.33 million; Africa (US\$163.35 million); and China (US\$116.73 million). On the other hand, the USA's real imports from the following regions are expected to significantly improve: China, where its imports are expected to increase by US\$202.32 million; Asia (US\$191.84 million); EU (US\$174.90); and America (US\$154.87).

For Oceania, Africa, the Rest of the World, and the Middle-East, improvements in the USA's imports are relatively small and range from US\$5.54 million to US\$35.09 million. At global level, real SACU exports are expected to decline by US\$125.92 million, while the real imports of the USA decline by US\$280.65.

Section 5.2 presented and analysed the results of Step 1.1 (Scenario 1), which focuses on the GTAP analysis of the possible welfare, macroeconomic and sectoral effects of an increase in USA's tariffs applied on SACU, if AGOA is not renewed and USA tariffs applied on SACU revert to the WTO's MFN levels. The results revealed negative welfare, macroeconomic and sectoral effects, which signify that it would be beneficial for SACU to engage in pro-active trade negotiations with the USA due to the uncertainty surrounding the renewal of AGOA. Hence, the following section presents and analyse the results of Step 1.2 (Scenario 2), which focuses on the GTAP analysis of the possible welfare, macroeconomic and sectoral effects of a potential full trade liberalisation policy reform in which SACU and the USA eliminate all import taxes and export subsidies to their bilateral trade.

5.3 The results of Scenario 2: Full SACU-USA trade liberalisation

The results of the expected welfare effects of the full trade liberalisation policy reform, under Scenario 2, are presented and analysed in Section 5.3.1. Sections 5.3.2 and 5.3.3 present and analyse the results of the expected macroeconomic and sectoral effects of the full trade liberalisation scenario, respectively. The estimated trade creation and trade diversion effects, under Scenario 2, are presented and analysed in Section 5.3.4.

5.3.1 Expected welfare effects under Scenario 2

The EV was also used to measure the net welfare gains originating from the potential fully liberalised SACU-USA reciprocal trade agreement, simulated in Scenario 2. The decomposition of the EV of the potential reciprocal trade deal (see Table 5.8) reveals positive net welfare gains for

both SACU (US\$296.26 million) and the USA (US\$676.84 million). This points to an expansion in economic welfare due to the trade creation resulting from the potential reciprocal BTA.

In the case of SACU, the major source of its welfare gain is the endowment effect, which contributes US\$306.36 million to SACU's net welfare gains originating from the formation of the potential SACU-USA reciprocal trade agreement. The endowment effect arises from changes in the availability of primary factors such as expansions in the stock of machinery and buildings (Hanslow, 2000). Unlike SACU, the endowment effect contributes nothing to the net welfare of the USA. However, the TOT effect is the major source of the USA's welfare gains. In this regard, TOT effect contributes US\$536.27 million towards the net welfare gains of the USA resulting from the formation of the potential reciprocal trade deal.

Table 5.8: Decomposition of the Equivalent Variation (EV) under Scenario 2 (2014 US\$ million)

	Allocative Efficiency Effect	Endowment Effect	Terms of Trade Effect	TOT in Investment and Savings	Total
Oceania	-2.20	0.00	-4.77	-3.29	-10.27
Asia	-18.65	0.00	-95.71	-22.68	-137.04
SACU	96.96	306.36	-104.13	-2.93	296.26
China	-43.96	0.00	-81.90	-39.67	-165.53
USA	26.57	0.00	536.27	114.00	676.84
America	0.58	0.00	-101.59	-5.19	-106.20
European Union	-54.17	0.00	-145.64	-17.07	-216.89
Middle-East	-1.71	0.00	-6.59	-8.92	-17.22
Africa	-6.40	-10.18	4.14	-4.18	-16.62
Rest of World	-0.07	0.00	-0.15	-10.09	-10.31
Total (World)	-3.06	296.17	-0.08	-0.02	293.01

Source: GTAP 10 model simulation

At global level, the formation of the potential SACU-USA reciprocal trade agreement improves global welfare by US\$293.01 million. This is despite only SACU and the USA achieving positive welfare gains, while all the other regions are expected to attain negative welfare gains due to the formation of the potential reciprocal trade agreement. The most affected regions are the European Union and China with a net welfare loss of US\$216.89 million and US\$165.53 million, respectively. This might be partially attributable to the diversion of trade from the European Union and China, which are important trading partners of SACU and the USA.

5.3.2 Expected macroeconomic effects under Scenario 2

The GTAP simulation results of the macroeconomic effects of the potential fully liberalised SACU-USA reciprocal trade agreement, simulated in Scenario 2, are shown in Table 5.9. The formation of the reciprocal BTA is expected to improve the real GDP of SACU by 0.10%, while that of the USA remains the same and that of other regions declines by very small magnitudes. In terms of export volume, the potential trade deal is expected to improve the export volumes of SACU, USA and China by 0.61%, 0.02% and 0.01%, respectively. The export volumes of all the other regions are expected to remain unchanged, while their import volumes (including that of China) deteriorate by smaller magnitudes. The import volumes of SACU and the USA improve by 0.90% and 0.07%, respectively. For both SACU and the USA, the improvement in their import volumes is greater than the improvement in their export volumes. This is partially the reason for the expected deterioration of their trade balances, while that of other regions are expected to improve.

Table 5.9: Macroeconomic effects under Scenario 2

	Real GDP (%)	Export Volume (%)	Import Volume (%)	Terms of Trade (%)	Trade Balance (2014 US\$ million)	Equivalent Variation (2014 US\$ million)	Regional Household Income (%)
Oceania	-0.00	0.00	-0.01	-0.00	32.65	10.27	-0.01
Asia	-0.00	0.00	-0.01	-0.00	248.27	-137.04	-0.01
SACU	0.10	0.61	0.90	-0.08	-501.03	296.26	0.04
China	-0.00	0.01	-0.01	-0.00	237.53	-165.53	-0.01
USA	0.00	0.02	0.07	0.02	-734.33	676.84	0.02
America	0.00	0.00	-0.01	-0.01	193.41	-106.20	-0.01
European Union	-0.00	0.00	-0.00	-0.00	394.81	-216.89	-0.01
Middle-East	-0.00	0.00	-0.00	-0.00	45.70	-17.22	-0.01
Africa	-0.00	0.00	-0.00	0.00	37.51	-16.62	-0.01
Rest of World	-0.00	0.00	-0.00	-0.00	45.24	-10.31	-0.01

Source: GTAP 10 model simulation

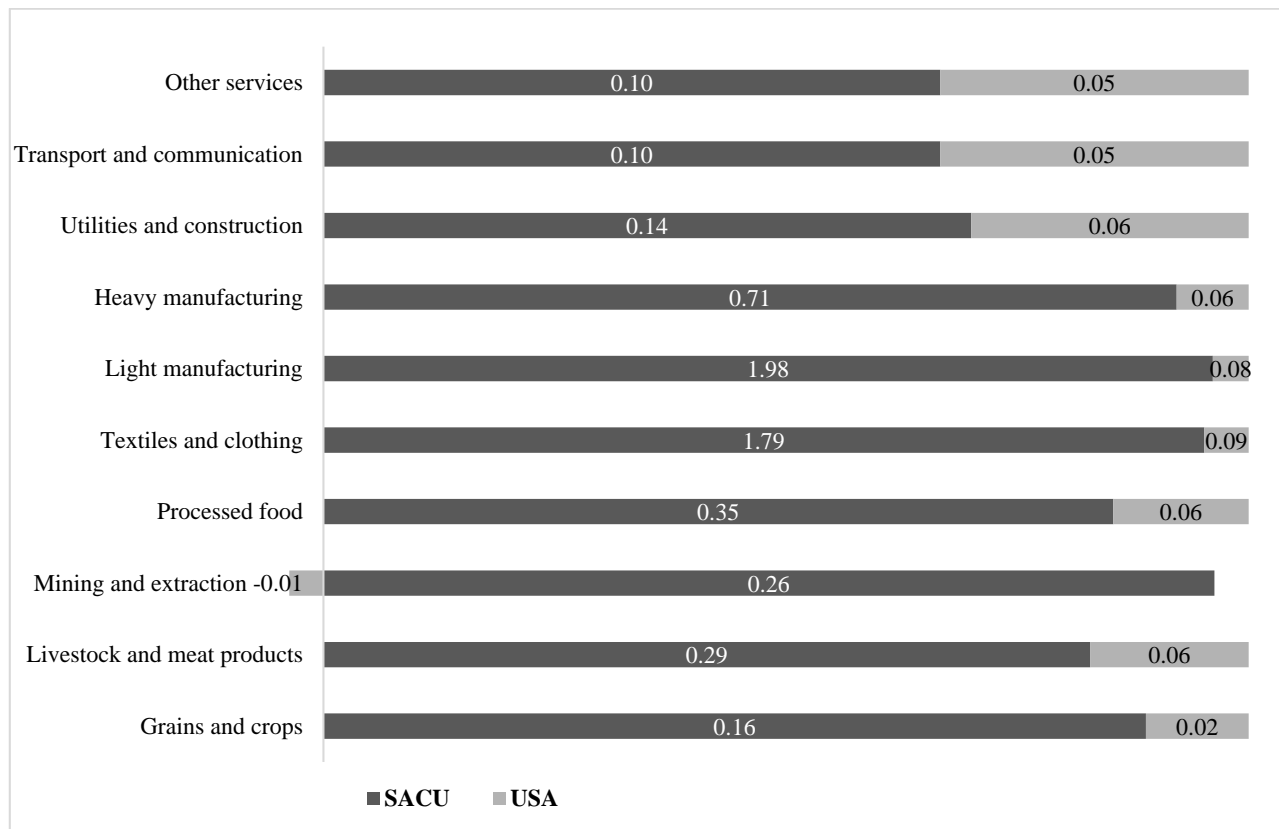
Only the TOT of the USA improves by 0.02% as a result of the formation of the potential SACU-USA reciprocal trade agreement. However, the TOT for SACU deteriorates by 0.08%, while that of Africa remains the same and that of all the other regions deteriorates by small magnitudes. The potential trade deal also improves the regional household income of SACU and the USA by 0.04% and 0.02%, respectively. Nevertheless, the household income of all the other regions is expected to deteriorate by small magnitudes.

5.3.3 Expected sectoral effects under Scenario 2

The results of the expected sectoral effects due to the formation of the potential fully liberalised SACU-USA reciprocal trade agreement, simulated in Scenario 2, are presented in Figures 5.2 to 5.4 and in Table 5.10 in this section. A significant probable effect of the potential reciprocal BTA is the reallocation of factors of production to sectors where the member countries possess comparative advantages. The estimated percentage change in SACU and the USA's value of merchandise imports by commodity is shown in Figure 5.2. With the exception of the extraction sector, whose import value declines by 0.01% in the case of the USA, the value of merchandise imports of all the other sectors is expected to improve in both SACU and the USA.

Winners in SACU include the light manufacturing sector (whose import value increases by 1.98%), textiles and clothing (1.79%) and the heavy manufacturing sector (0.71%). In the USA, winners include the textiles and clothing sector (whose import value improves by 0.09%) and the light manufacturing sector (0.08%). Collectively, the value of merchandise imports of SACU is expected to improve by 0.87%, while that of the USA is expected to improve by 0.06%.

Figure 5.2: Estimated SACU and USA's value of merchandise imports by commodity under Scenario 2 (% change)

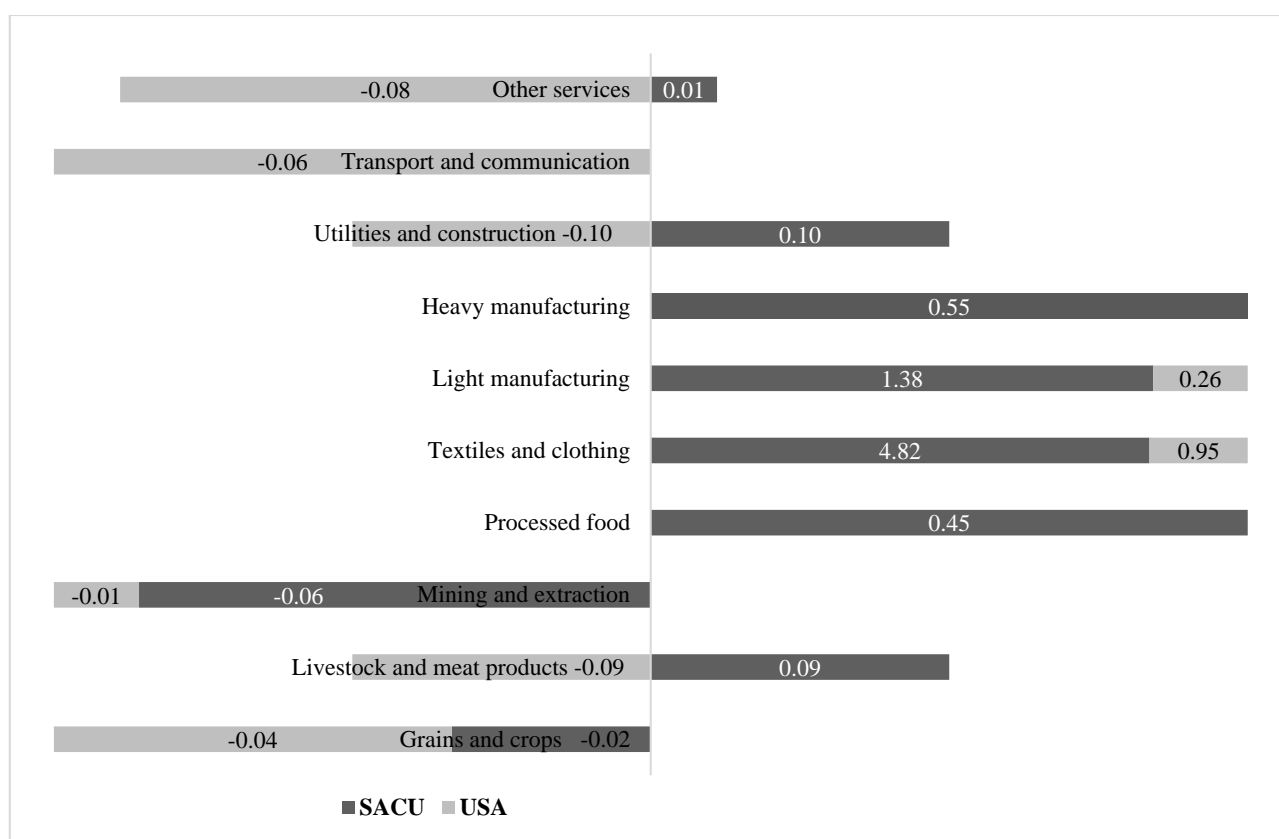


Source: Authors' own figure based on GTAP 10 model simulation

The estimated change in SACU and the USA's value of merchandise exports by commodity is shown in Figure 5.3. Unlike the value of merchandise imports, which improves in all the sectors in SACU, the value of merchandise exports is expected to deteriorate in the mining and extraction and the grains and crops sector. In the case of the USA, the value of merchandise exports is expected to deteriorate in the following sectors: mining and extraction; livestock and meat products; grains and crops sector; and in all the services sectors.

Nevertheless, winners in SACU include the textiles and clothing sector (4.82%), light manufacturing sector (1.38%) and the heavy manufacturing sector, which improves by 0.55%. The only winners in the case of the USA are textiles and clothing and the light manufacturing sectors whose values of merchandise exports are expected to improve by 0.95% and 0.26%, respectively. Collectively, the value of merchandise exports of SACU is expected to improve by 0.51%, while that of the USA is expected to improve by 0.04%.

Figure 5.3: Estimated SACU and USA's value of merchandise exports by commodity under Scenario 2 (% change)



Source: Authors' own figure based on GTAP 10 model simulation

In terms of bilateral traded quantities between SACU countries and the USA, Table 5.10 shows an improvement in bilateral export growth from the standpoint of both SACU and the USA. The exports of SACU to the USA are expected to improve significantly in the following sectors: textiles

and clothing sector whose export growth improves by 31.33%; processed food (16.75%); light manufacturing (16.16%); mining and extraction (15.41%); livestock and meat products (12.82%); and the heavy manufacturing sector (8.69%). In the case of the USA's exports to SACU countries, robust winners include the following sectors: textiles and clothing whose export growth improves by 527.71%; light manufacturing (78.16%); processed food (26.49%); livestock and meat products (24.10%); and the heavy manufacturing sector (23.40%). In the case of the USA, the export growth is significantly more than that of SACU in almost all the sectors. This may be partly explained by the possible elimination of relatively high tariffs that the USA currently face in SACU. For example, the USA currently faces a tariff of 28.42% when exporting textiles and clothing to SACU countries.

Table 5.10: Estimated bilateral traded quantities under Scenario 2 (% change)

Region	Total bilateral export growth
SACU to USA	
Grains and crops	0.06
Livestock and meat products	12.82
Mining and extraction	15.41
Processed food	16.75
Textiles and clothing	31.33
Light manufacturing	16.16
Heavy manufacturing	8.69
Utilities and construction	0.15
Transport and communication	0.05
Other services	0.05
USA to SACU	
Grains and crops	6.68
Livestock and meat products	24.10
Mining and extraction	1.22
Processed food	26.49
Textiles and clothing	527.71
Light manufacturing	78.16
Heavy manufacturing	23.40
Utilities and construction	0.02
Transport and communication	0.01
Other services	0.02

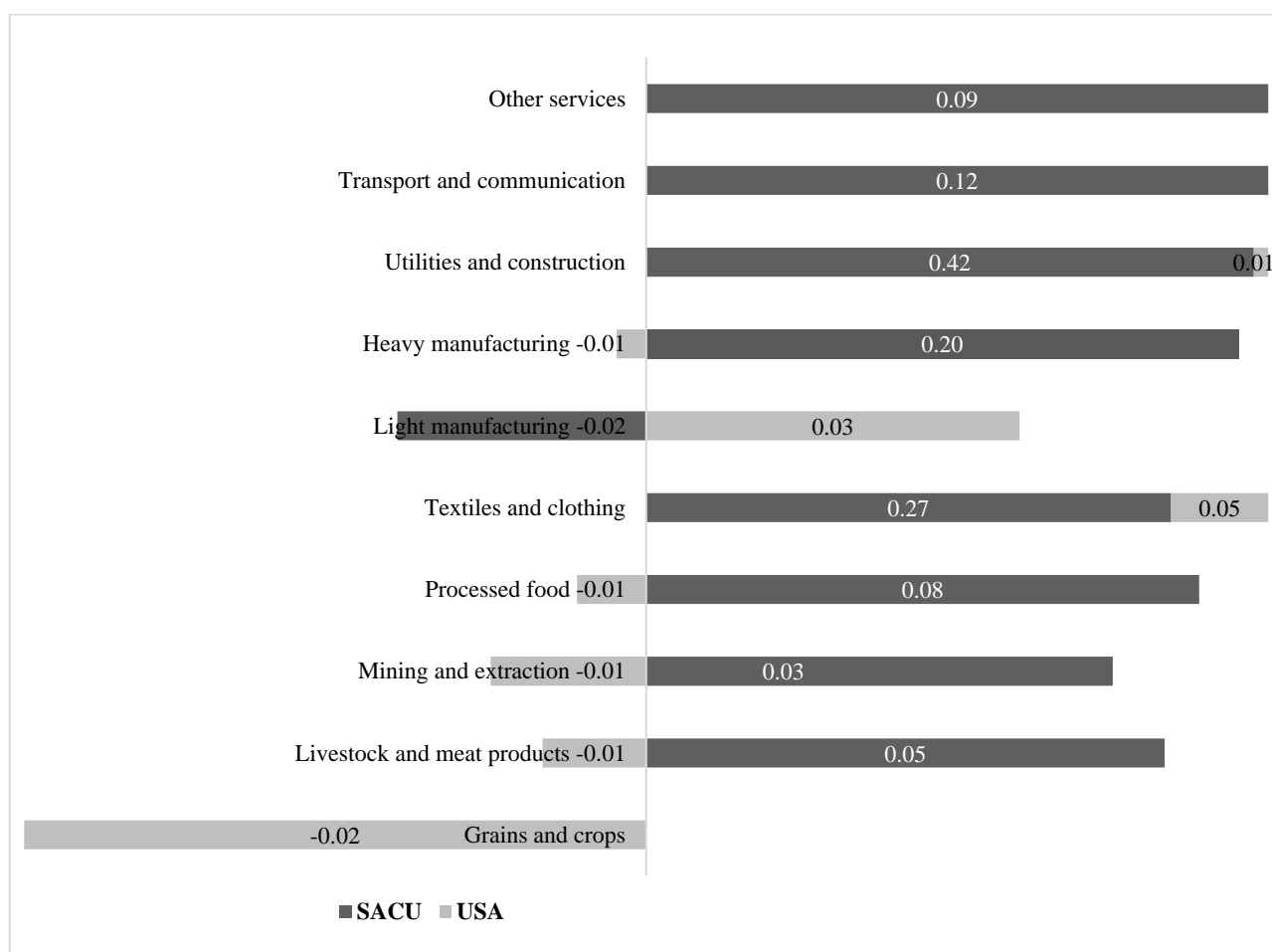
Source: GTAP 10 model simulation

The estimated change in the value added in SACU and USA's industries is shown in Figure 5.4. In SACU, with the exception of the light manufacturing sector whose value added deteriorates by

0.02% and the grains and crops sector whose value added is expected to remain unchanged, all the other sectors reveal an improvement in value added. In the USA, value added in most of the sectors is expected to deteriorate by small magnitudes. The winning sectors in SACU include: the consumer goods sector whose value addition improves by 0.69%; utilities and construction (0.42%); textiles and clothing (0.27%), and the transport and communication sector (0.09%).

Winners in the USA include: textiles and clothing whose value added improved by 0.05%; consumer goods (0.02%); and the utilities and construction sector (0.01%). Losers in the USA includes: light manufacturing and grains and crops whose value added declines by 0.02% each; and heavy manufacturing, processed food, mining and extraction, and livestock and meat products whose value added deteriorates by 0.01% respectively.

Figure 5.4: Estimated value added in SACU and USA's industries under Scenario 2 (% change)



Source: Authors' own figure based on GTAP 10 model simulation

The results of the trade creation and trade diversion due to the formation of the potential SACU-USA reciprocal trade agreement are presented and analysed in the following section.

5.3.4 Trade creation and diversion under Scenario 2

The concepts of trade creation and trade diversion introduced in the seminal theory of Custom Unions (CU), developed by Viner (1950), contrast the welfare enhancing effects within the established trade agreement with the welfare reducing effects emanating from trade discrimination (Burfisher, 2017). According to Viner (1950), trade creation is defined as the shift in the volume of production of traded goods from a high-cost producer in the established agreement to a lower cost member.⁶⁷ In contrast, trade diversion is defined as the shift in members' source of imports from low-cost non-members to high-cost members resulting in deterioration of production efficiency and welfare.

The real import (quantity) changes, which indicate trade creation and trade diversion effects of the potential SACU-USA reciprocal trade agreement, are presented in Table 5.11. The potential trade deal is expected to be net trade creating in all the sectors for both SACU and the USA. This is because the increase in the quantities of their bilateral imports in those sectors exceeds the diversion of their imports of those sectors from other regions. For instance, the increase in SACU's light manufacturing imports from the USA by US\$1.47 billion diverts only US\$793.89 million worth of light manufacturing imports from all the other regions.

Table 5.11: Trade creation and trade diversion effects under Scenario 2 (2014 US\$ million)

Sector	Change in real SACU imports from the USA	Change in real SACU imports from other regions
Grains and crops	5.32	-1.45
Livestock and meat products	5.23	-1.65
Mining and extraction	0.47	56.30
Processed food	39.34	-12.85
Textiles and clothing	232.49	-112.00
Light manufacturing	1465.85	-793.89
Heavy manufacturing	873.47	-392.05
Utilities and construction	0.01	2.00
Transport and communication	0.05	8.04
Other services	0.21	4.63
Total	2622.44	-1242.92

⁶⁷ The resulting increase in production efficiency unambiguously increases global welfare (Burfisher, 2017).

Table 5.11: Trade creation and trade diversion effects under Scenario 2 (2014 US\$ million)
(continued)

Sector	Change in real USA imports from the SACU	Change in real USA imports from other regions
Grains and crops	0.08	6.88
Livestock and meat products	2.42	8.33
Mining and extraction	96.10	-98.44
Processed food	36.81	15.92
Textiles and clothing	127.79	7.90
Light manufacturing	328.79	215.21
Heavy manufacturing	380.01	329.40
Utilities and construction	0.07	6.99
Transport and communication	0.41	84.21
Other services	0.53	127.02
Total	973.01	703.42

Source: Authors' own table based on GTAP 10 model simulation

Similarly, with the exception of mining and extraction sector with a net trade diversion, the increase in the USA imports from SACU does not divert any trade from other regions in all the sectors. Instead, USA's imports from other regions increase and most noticeably in the heavy and light manufacturing sectors where real imports of the USA increase by US\$329.40 million and US\$215.21 million, respectively.

A summary of the GTAP simulation results of the estimated effects of the possible USA tariff increase and the potential fully liberalised SACU-USA reciprocal trade agreement, presented and analysed in this chapter, is provided in the following section.

5.4 Summary

The standard GTAP model was utilised in this chapter to simulate the welfare, macroeconomic and sectoral effects of the possible increase in USA tariffs applied on SACU, if USA tariffs revert to MFN levels, should AGOA expire and is not renewed in 2025 (Step 1.1/Scenario 1). These results were compared to the expected welfare, macroeconomic and sectoral effects of a potential ambitious or full trade liberalisation policy reform in which the USA and SACU eliminate all import taxes and export subsidies to their bilateral trade (Step 1.2/Scenario 2).

To quantify the welfare effects of the possible USA tariff increase, the GTAP model welfare decomposition utility was utilised. The simulated results showed that SACU would suffer an estimated net welfare loss of US\$540.74 million. This welfare loss emanated mainly from the deterioration in SACU's endowment effect (-US\$234.08), TOT effect (-US\$156.90) and the allocative efficiency effect (-US\$147.97 million). The USA, on the other hand, is estimated to achieve welfare gains of US\$67.40 million. Most of this welfare gain is expected to originate from its TOT effect (US\$47.54 million), and its TOT in investment and savings (US\$23.06 million). While the net welfare of Middle-East, Rest of World and Oceania is estimated to deteriorate, all the other regions achieve minimal welfare gains together with the USA.

The welfare decomposition function of the GTAP model was also utilised to quantify the EV welfare effects that are associated with the changes in trade quantities under the full SACU-USA trade liberalisation policy reform scenario. The simulated results revealed that both SACU and the USA would achieve welfare gains under this scenario. The major contributor to the welfare gains of SACU is the endowment effect (US\$306.36 million) and the allocative efficiency effect (US\$96.96 million). In the case of the USA, its welfare gains emanate mostly from the TOT (US\$536.27 million) effect and the TOT in investment and savings (US\$114.00 million).

The magnitude of the welfare gains emanating from the full trade liberalisation is much larger for the USA (US\$676.84 million) in comparison to SACU's US\$296.26. All the other regions are expected to suffer welfare losses with the European Union (-US\$216.89 million) and China (-US\$165.83 million) emerging as the major losers. However, the magnitude of the welfare gains of SACU and the USA is larger than the welfare losses of all the other regions, thus making the global economy better-off as a result of this full trade liberalisation.

Macroeconomic and sectoral effects of the possible USA tariff increase, due to the expiry of AGOA simulated under Scenario 1, are mostly unfavourable for SACU. For instance, the real GDP of SACU is expected to deteriorate. In addition, diversion of exports from the USA to other regions was also revealed in the case of SACU, while the USA also diverts its imports from SACU to other regions.

The GTAP simulations of the estimated macroeconomic and sectoral effects of the full SACU-USA trade liberalisation scenario are mostly favourable for both SACU and the USA. For instance, bilateral traded quantities between SACU and the USA are estimated to increase in all sectors. Furthermore, the formation of the potential reciprocal BTA is expected to be net trade creating for both SACU and the USA in all the sectors. For the USA, in particular, its imports from all the other

regions improve in all the sectors (except mining and extraction) as an outcome of the potential trade deal.

The overall negative effects, revealed in Scenario 1, coupled with the overall positive effects, revealed in Scenario 2, indicate that it is beneficial for SACU and the USA to engage in the negotiation of the potential reciprocal BTA. As mentioned, the purpose of the GTAP analysis performed in Steps 1.1 and 1.2 is to give a macro-level context to the possible implications of AGOA expiring with no alternative SACU-USA reciprocal trade agreement in place *versus* a potential fully liberalised reciprocal trade agreement between SACU and the USA.

Therefore, the results of the GTAP model simulations in this chapter validate the importance of proactive bilateral trade negotiations between SACU and the USA within the context of the uncertainty surrounding the renewal of AGOA after it expires in 2025. In this regard, products and sectors that SACU and the USA should prioritise in the negotiation of this potential trade deal are identified in the following chapter, using the product-level prioritisation method developed in this study.

CHAPTER 6: PRODUCTS THAT SHOULD BE PRIORITISED IN SACU-USA BILATERAL TRADE NEGOTIATIONS

6.1 Introduction

Given the lingering uncertainty surrounding the renewal of AGOA, the post-AGO trade relationship between SACU and the USA remains undefined. To be pro-active, SACU has to engage the USA in negotiation of a reciprocal trade agreement. As indicated in Chapter 1, this study proposes a product-level prioritisation method to inform the trade negotiations in the preparation phase of the bilateral trade negotiation process. The method is applied in the case of SACU and the USA to identify products and sectors that both parties should prioritise in bilateral trade negotiations. Step 1 simulated the possible macro-level impact if AGOA expires with no bilateral trade agreement in place (Step 1.1/Scenario 1) *versus* a potential fully liberalised SACU-USA reciprocal trade agreement (Step 1.2/Scenario 2). The overall negative effects revealed in Scenario 1, coupled with the positive effects revealed in Scenario 2 (see Chapter 5), motivate that pro-active trade negotiations between SACU and the USA are important for both parties. Therefore, steps 2.1 to 4.2 of the research method (see Section 4.2.3 to 4.2.7) can now be applied to identify specific products and sectors with trade potential (i.e. export capacity matched with import demand and low market concentration) in order to inform the trade negotiations between SACU and the USA.

The results of each of these steps are presented and analysed in this chapter. In this regard, Section 6.2 consists of the presentation and an analysis of the results of: Step 2.1 in which consistently large and/or growing import demand in the USA and in SACU for all products was identified (see Section 6.2.1); Step 2.2 in which products that SACU and the USA consistently export competitively (i.e. sustainable exports) were identified (see Section 6.2.2); Step 3 in which consistently large and/or growing import demand in the USA market was matched to SACU's consistently competitive export supply products and *vice-versa* (see Section 6.2.3); Step 4.1 in which the degree of concentration in the USA and SACU market was assessed (see Section 6.2.4); and Step 4.2 in which the degree of SACU's tariff-wise market access in the USA and USA's tariff-wise market access in SACU was assessed (see Section 6.2.5). The results of products and sectors that SACU and the USA should prioritise in bilateral trade negotiations are discussed in Section 6.3 and 6.4. A summary of the main findings of this chapter is provided in Section 6.5, which also concludes this chapter.

6.2 The results of steps 2.1 to 4.2

The results of steps 2.1, 2.2, 3, 4.1 and 4.2 that were applied in this study to identify, beforehand, products and sectors that SACU and the USA should prioritise in the bilateral trade negotiations,

are presented and analysed in Sections 6.2.1 to 6.2.5, respectively.

6.2.1 Step 2.1: Identifying consistently large and/or growing import demand in the USA and in SACU for all products

In this step, consistently large and/or growing import demand in the USA and SACU was identified for all products at HS6-digit level. As already discussed in Section 4.2.1, two selection criteria, namely import growth and import market size, were utilised in step 2.1. HS6-digit level direct import and export data, from 2013 to 2017, was used for the USA and South Africa. However, a combination of both direct and/or mirror import and export data, over the same period, was utilised for SACU countries excluding South Africa.

The USA imports a total of 4 952 products from all its trading partners globally (see Table 6.1). Of the 4 952 products imported by the USA, 3 619 were identified with consistently large and/or growing import demand over the five-year period from 2013 to 2017.

Table 6.1: Summary of results of consistently large and/or growing import demand identified in the USA and in SACU

USA		Number
Total number of products imported by the USA		4 952
Products identified with consistently large and/or growing import demand from 2013 to 2017 in the USA		3 619
SACU		Total
Total number of products imported by individual SACU Member States ⁶⁸	Botswana	5 096
	Lesotho	3 226
	Namibia	4 883
	South Africa	4 922
	Eswatini	4 267
Products identified with consistently large and/or growing import demand in individual SACU Member States from 2013 to 2017	Botswana	552
	Lesotho	117
	Namibia	745
	South Africa	707
	Eswatini	241

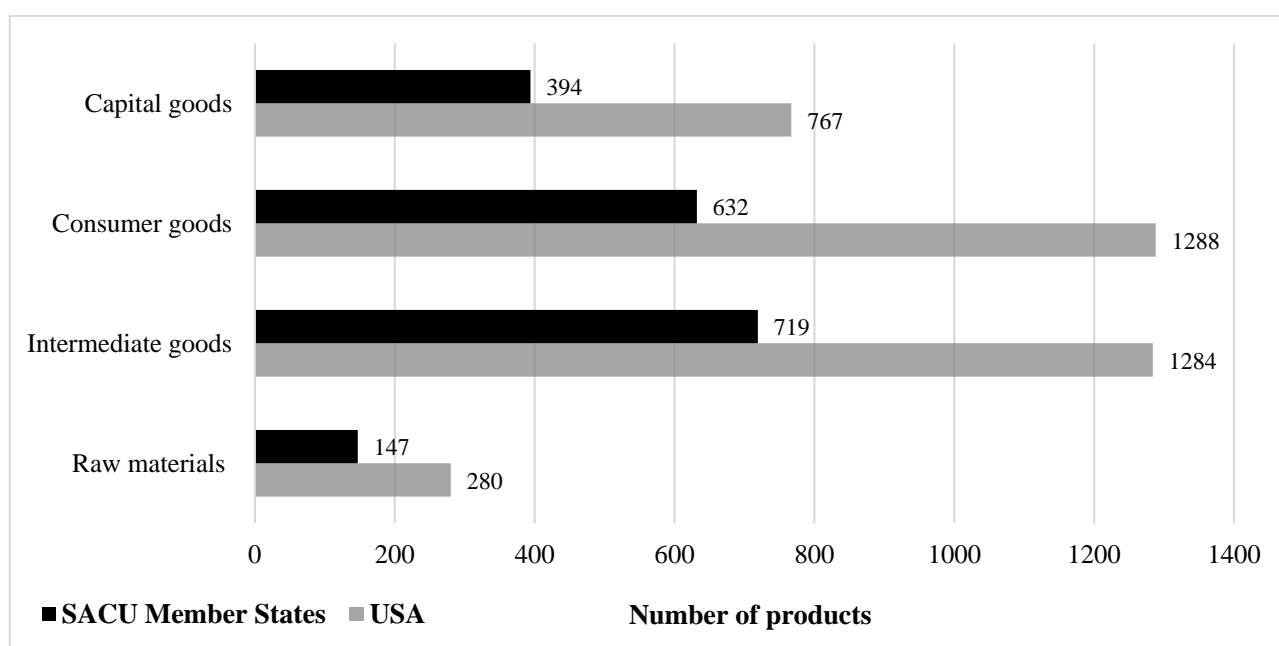
Source: Author's own table

⁶⁸ The selection criteria were relaxed in the case of SACU where products that fulfilled the selection criteria (see Section 4.2.3 and Table 4.3) in at least 3 of the 5 years under analysis, with 2 of the 3 years being in the last 2 years of the 5-year period (i.e. 2016 and 2017), were also considered as possessing consistently large and/or growing import demand.

On the other hand, SACU countries collectively import 5 199 products from all their trading counterparts around the world. From the 5 199 products, a total of 2 362 product-country combinations were identified with consistently large and/or growing import demand in SACU. When analysed collectively, after taking multiple counting of the same product in different SACU countries into consideration⁶⁹, the 2 362 product-country combinations translate to 1 892 products.

As revealed in Table 6.1, the majority of the products identified with consistently large and/or growing import demand in SACU were identified in Namibia, South Africa, and Botswana, respectively. Classifying the products in terms of the Broad Economic Categories (BEC)⁷⁰ (see Figure 6.1) shows that the majority of the products identified with consistently large and/or growing import demand, from 2013 to 2017, in both the USA and SACU markets are consumer goods and intermediate goods.

Figure 6.1: Products identified with consistently large and/or growing import demand in the USA and SACU classified by the level of processing



Source: Author's own figure based on WB (2019)

The fact that the raw materials category possesses the smallest number of products identified with consistently large and/or growing import demand, between 2013 and 2017, in both the USA and

⁶⁹ This means that if a product is identified with consistently large and/or growing import demand in all the SACU countries, it is counted once.

⁷⁰ In terms of the BEC classification, global trade is classified into the following four major economic categories, depending on the stage of processing and use: raw materials, which consist of resources and other inputs utilised in the production process; intermediate products, which consist of semi-finished products that are utilised in the production of other products; consumer products, which are those products that are intended for final consumption; and capital goods, which are manufacturing goods such as machineries that are intended to be utilised in the production of other goods (UNCTAD, 2014).

SACU markets, reveals that these markets can sustain imports of more of benefited or value added products utilised in the production of other goods and for consumption purposes. This may be beneficial to exporters in both the USA and individual SACU countries, in terms of enhanced export earnings and the sustainability of trade relationships, if such products form part of the sustained export opportunities identified in the USA and SACU markets. In the context of global supply chains, high sustained import demand of intermediate goods can also be viewed as greater participation of the USA and SACU countries in fragmented production processes, which requires importation of intermediate products (UNCTAD, 2013).

The supply-side results of products that the USA and SACU consistently export competitively (sustainable exports), are discussed in Section 6.2.2.

6.2.2 Step 2.2: Identifying products that SACU and the USA consistently export competitively (sustainable exports)

As already mentioned in Section 4.2.4, a combination of both RTA and RCA indices was used in Step 2.2 to determine the USA and SACU's product-level export production capacity and sustainability.

Table 6.2: Summary of results of products that the USA and SACU consistently export competitively

USA		Number
Total number of products exported by the USA		4 959
Products consistently exported competitively by the USA (sustainable exports selected in step 2.2, with $RCA \geq 1$ and $RTA > 0$ between 2013 and 2017)		1 197
SACU		Total
Products exported by individual SACU Member States	Botswana	4 192
	Lesotho	2 526
	Namibia	4 500
	South Africa	4 928
	Eswatini	3 271
Products consistently exported competitively by individual SACU Member States between 2013 and 2017) ⁷¹	Botswana	626
	Lesotho	24
	Namibia	641
	South Africa	807
	Eswatini	91

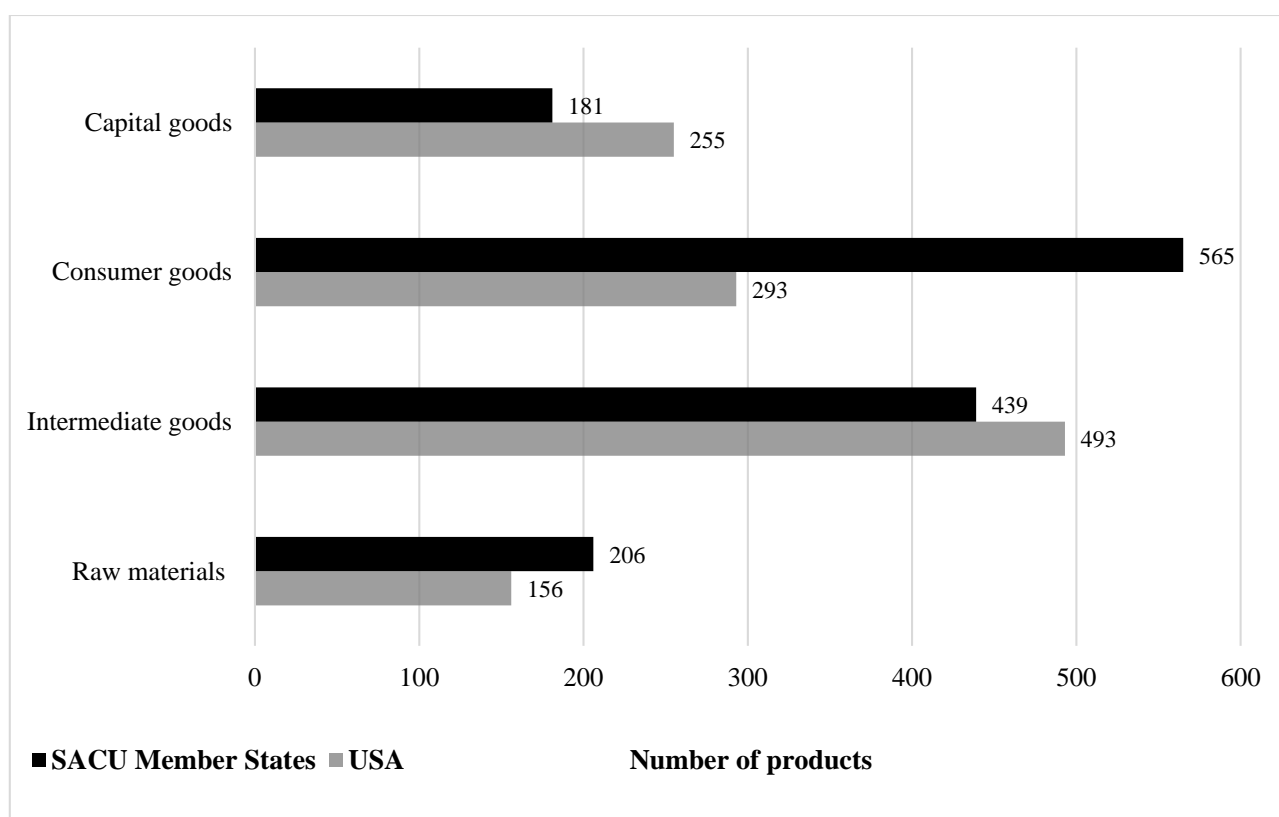
Source: Author's own table

⁷¹ Unlike the USA, which is a developed country, SACU consists of developing countries whose production capacity is not comparable to that of the USA in many cases. Emanating from this, the selection criteria were relaxed in the case of SACU where the RCA index was permitted to be at least greater than 0.7.

A summary of the results of products that the USA and SACU consistently export competitively is shown in Table 6.2. A total of 4 959 products exported by the USA were analysed in this step to identify products that the USA consistently export competitively, over a five-year period from 2013 to 2017. Of the 4 959 products exported by the USA to all its trading partners globally, a total of 1 197 products fulfilled the selection criteria; that is, $RCA \geq 1$ and $RTA > 0$ in all the five years from 2013 to 2017. In contrast, SACU countries collectively export 5 112 products to all their trading partners around the world. When analysed collectively (i.e. after taking multiple counting into consideration), there are 1 391 products consistently exported competitively by SACU.

Products consistently exported competitively by the USA and SACU, classified in terms of BEC, are shown in Figure 6.2. The USA enjoys more product-level export production sustainability in the intermediate goods category. Likewise, SACU countries enjoy more product-level export production sustainability in the consumer goods category.

Figure 6.2: Products consistently exported competitively by the USA and SACU classified in terms of the level of processing



Source: Author's own figure based on WB (2019)

The 3 619 products identified with consistently large and/or growing import demand in the USA (selected in Step 2.1) qualified to enter step 3, in which they were matched to the 1 391 products that SACU consistently export competitively. Similarly, the 1 892 products identified with

consistently large and/or growing import demand in SACU qualified to enter step 3, in which they were matched to the 1 197 products that the USA consistently export competitively. The results of step 3 are presented and analysed in the following section.

6.2.3 Step 3: Matching import demand in the USA market to SACU's export supply and *vice-versa*

Results of the matched product-country combinations identified in the USA market are summarised in Table 6.3. A total of 3 619 products identified with consistently large and/or growing import demand in the USA from 2013 to 2017 (selected in step 2.1) were matched to the products consistently exported competitively by SACU (with $RTA > 0$ and $RCA > 0.7$), selected in step 2.2. In this regard, 1 685 matched product-country combinations were identified with export potential for SACU countries in the USA. Most of the matched product-country combinations identified in the USA consisted of products consistently exported competitively by South Africa (666 products) and Namibia (512 products).

Table 6.3: Summary of results of matched product-country combinations in the USA market

USA		Total
Products identified with consistently large and/or growing import demand in the USA		3 619
Products consistently exported competitively by individual SACU Member States in 2013 to 2017 and matched with consistently large and/or growing import demand in the USA	Botswana	450
	Lesotho	16
	Namibia	512
	South Africa	666
	Eswatini	41
Total number of matched product-country combinations (export opportunities for SACU member countries in the USA)		1 685

Source: Author's own table

A collective analysis (i.e. after taking multiple counting into consideration) of the 1 685 matched product-country combinations identified in the USA, from 2013 to 2017, yields 1 060 matched products.

In the SACU market, the 2 362 product-country combinations identified with consistently large and/or growing import demand, from 2013 to 2017 (selected in step 2.1) were matched to 1 197 products consistently exported competitively by the USA (with $RTA > 0$ and $RCA \geq 1$), over the same period, which were selected in step 2.2 (see Table 6.4). A total of 686 matched product-

country combinations were identified in SACU with most of the matched product-country combinations being identified in Namibia (221), South Africa (211) and Botswana (162). After taking multiple (for the same product in more than one SACU country) counting into consideration, the 686 matched product-country combinations identified in SACU yielded 539 matched products.

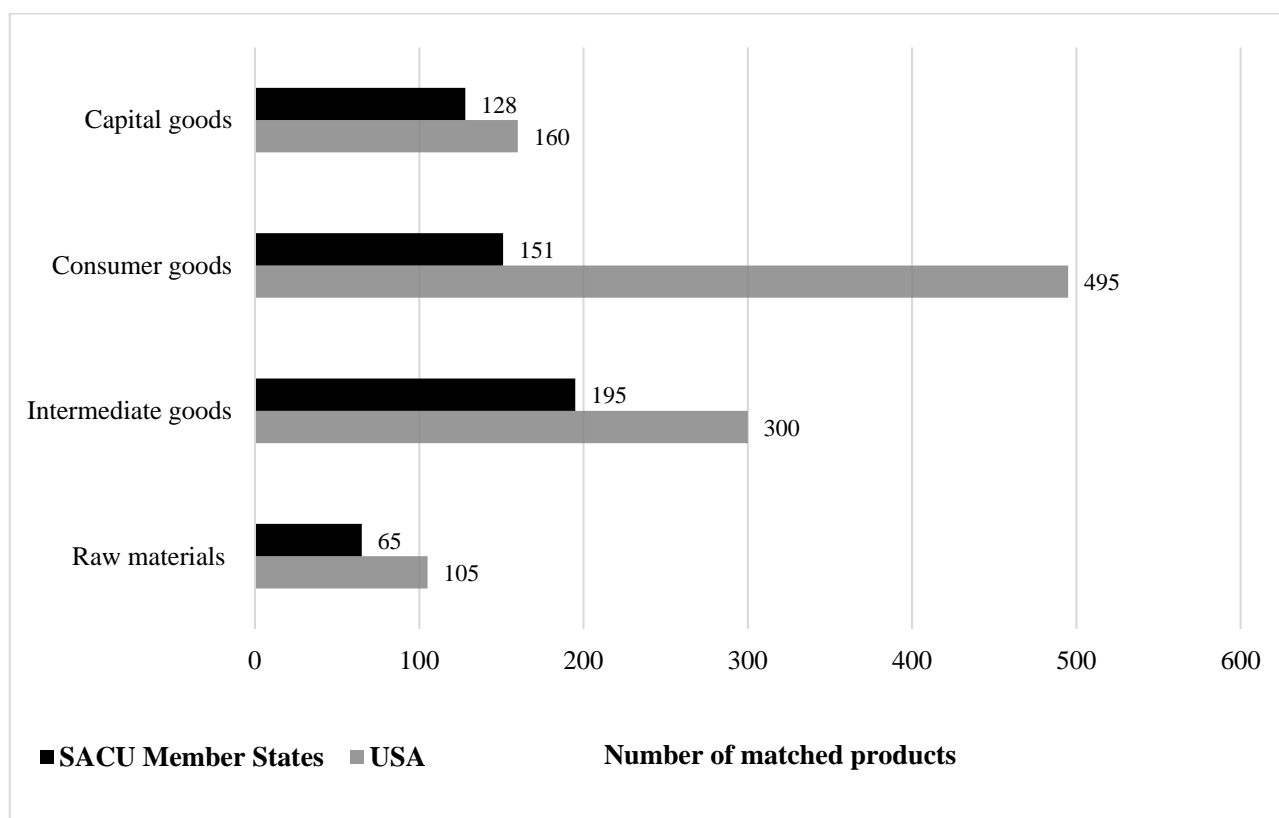
Table 6.4: Summary of results of matched product-country combinations in the SACU market

SACU		Total
Product-country combinations identified with consistently large and/or growing import demand in the SACU		2 362
Products identified with consistently large and/or growing import demand in individual SACU Member States from 2013 to 2017	Botswana	552
	Lesotho	117
	Namibia	745
	South Africa	707
	Eswatini	241
Products consistently exported competitively by the USA (sustainable exports selected in step 2.2, with RCA > 0.7 and RTA > 0 in 2013 to 2017)		1 197
Products consistently exported competitively by the USA in 2013 to 2017 and matched consistently large and/or growing import demand in individual SACU Member States	Botswana	162
	Lesotho	26
	Namibia	221
	South Africa	211
	Eswatini	66
Total number of matched product-country combinations (export opportunities for the USA in SACU member countries)		686

Source: Author's own table

Matched products identified in the USA and SACU markets classified in terms of the level of processing are shown in Figure 6.3. It is apparent that the majority of the matched products identified in the USA market are in the consumer goods category, while most of the matched products identified in the SACU market are in the intermediate goods category. This is consistent with the findings in Step 2.1 (see Figure 6.1) and Step 2.2 (see Figure 6.3) where most of the products identified with consistently large and/or growing import demand in the USA are consumer goods, while in SACU, it is intermediate goods. Furthermore, in the same steps, most of the products consistently exported competitively by the USA are intermediate goods, while in SACU, it is consumer goods.

Figure 6.3: Matched products identified in the USA and SACU classified in terms of the level of processing



Source: Author's own figure based on WB (2019)

The degree of market concentration, in the USA and SACU, for the sustained export opportunities identified in this step was assessed in Step 4.1. The results of Step 4.1 are presented and analysed in Section 6.2.4.

6.2.4 Step 4.1: Assessing the degree of concentration in the USA and SACU market

The degree of market concentration for the sustained export opportunities identified in Step 3 was assessed in this step. As shown in Table 6.5, of the 1 060 matched products identified in the USA market, 819 matched products were identified with low market concentration over the period 2013 to 2017. This means that the USA imports these products from many exporting countries and this validates the possibility for SACU exporters to be able to enter the USA market when utilising such export opportunities. However, 241 of the 1 060 matched products identified in the USA market were characterised by high market concentration. This means that the USA imports these products from only a few or a single exporting country and this makes the USA market difficult for SACU exporters to enter when exporting such products.

Table 6.5: Summary of results of the degree of market concentration in the USA and in SACU

USA		Total
Matched products (selected in Step 3)		1 060
Matched products with low market concentration in the USA from 2013 to 2017		819
Matched products with high market concentration in the USA from 2013 to 2017		241
SACU		Total
Matched product-country combinations (selected in Step 3)		686
Matched products with low market concentration in individual SACU Member States	<i>Botswana</i>	109
	<i>Lesotho</i>	19
	<i>Namibia</i>	151
	<i>South Africa</i>	167
	<i>Eswatini</i>	50
Total number of matched product-country combinations with low market concentration in SACU from 2013 to 2017 ⁷²		496
Matched product-country combinations with high market concentration from 2013 to 2017		190
Matched products with high market concentration in individual SACU Member States	<i>Botswana</i>	53
	<i>Lesotho</i>	7
	<i>Namibia</i>	70
	<i>South Africa</i>	44
	<i>Eswatini</i>	16
Total number of matched product-country combinations with high market concentration in SACU from 2013 to 2017		190

Source: Author's own table

In the case of SACU, Table 6.5 reveals that 496 of the 686 sustained export opportunities for the USA identified in SACU in Step 3, were characterised by low market concentration. The majority of the sustained export opportunities with low market concentration were identified in South Africa (167), Namibia (151) and Botswana (109). Nevertheless, a total of 190 of the 686 sustained export opportunities for the USA identified in SACU were characterised by high market concentration. Therefore, it is most probable to be challenging for the USA exporters to enter the SACU market when pursuing such export opportunities.

Following the assessment of the degree of market concentration performed in Step 4.1, the degree of tariff-wise market access, in the USA and SACU, for the sustained export opportunities identified in Step 3 (see Section 6.2.3) was, similarly, assessed in Step 4.2. The results obtained in Step 4.2 are presented and analysed in Section 6.2.5.

⁷² As stated in Section 4.2.6, export opportunities for the USA in SACU, concentrated by South Africa, were considered as possessing low market concentration in cases where South Africa is a net importer of the products (i.e. if South Africa's RTA index is less than zero).

6.2.5 Step 4.2: Assessing the degree of SACU's tariff-wise market access in the USA and USA's tariff-wise market access in SACU

This step assessed the degree of tariff-wise market access, in the USA and SACU, for the sustained export opportunities identified in Step 3. The variables used to measure this degree of tariff-wise market access (see Section 4.2.7) are maximum tariffs applied to the exporting country (%) and the exporting country's tariff advantage (%). The ease of tariff-wise market access index was computed for both the USA and SACU. For the computation of the ease of tariff-wise market access index, the indices of tariff and tariff advantage were calculated and allocated equal weights. As mentioned in Section 4.2.7, products with an ease of tariff-wise market access index below 75 (indicating a tariff > 0%) were considered to have a low tariff-wise market access. Likewise, those products with an ease of tariff-wise market access index greater or equal to 75 (indicating a tariff of 0%) were considered to have a high tariff-wise market access.

In the USA market, 526 of the 1 060 matched products identified in Step 3, over the five-year period from 2013 to 2017, were characterised by low tariff-wise market access (see Table 6.6). This entails that the USA charges high tariffs thereby making the market less accessible.

Table 6.6: Summary of results of the degree of tariff-wise market access in the USA and in SACU

USA		Total
Matched products (selected in Step 3)		1 060
Matched products with low tariff-wise market access from 2013 to 2017		526
Matched products with high tariff-wise market access from 2013 to 2017		534
SACU		Total
Matched product-country combinations (selected in Step 3)		686
Matched products with low tariff-wise market access in individual SACU Member States	<i>Botswana</i>	55
	<i>Lesotho</i>	13
	<i>Namibia</i>	93
	<i>South Africa</i>	88
	<i>Eswatini</i>	28
Total matched product-country combinations with low tariff-wise market access from 2013 to 2017		277
Matched products with high tariff-wise market access in individual SACU Member States	<i>Botswana</i>	107
	<i>Lesotho</i>	13
	<i>Namibia</i>	128
	<i>South Africa</i>	123
	<i>Eswatini</i>	38
Total matched product-country combinations with high tariff-wise market access from 2013 to 2017		409

Source: Author's own table

However, 534 of the 1 060 sustained export opportunities for SACU identified in the USA were characterised by high tariff-wise market access. This means that the USA market is easily accessible for SACU exporters pursuing such sustained export opportunities. All of the 534 sustained export opportunities characterised by low tariff-wise market access in the USA market are already being levied a zero tariff rate by the USA.

In the case of SACU, 277 of the 686 matched product-country combinations identified in Step 3, over the five-year period from 2013 to 2017, were characterised by low tariff-wise market access. This signifies that, for these products, the particular SACU market is not easily accessible, in terms of tariffs, for USA exporters seeking to exploit the identified sustained export opportunities. The SACU market is, however, easily accessible for 409 of the 686 sustained export opportunities identified in SACU. Since these sustained export opportunities were characterised by high tariff-wise market access, this entails that the SACU market is easily accessible for USA exporters pursuing such sustained export opportunities. Furthermore, SACU countries already levy a zero tariff rate on all of the 409 sustained export opportunities that were identified with high tariff-wise market access in the SACU market.

To identify export opportunities that should be prioritised in trade negotiations between the USA and SACU, the export opportunities with low tariff-wise market access are of particular interest in this study (see Section 6.3). However, those sustained export opportunities that possess a high tariff-wise market access and a low market concentration are assessed, in terms of NTMs, for qualification as additional priority products.⁷³ In this regard, AVEs of NTMs of such export opportunities are used as a basis of selection (see Section 6.4).

The results of the methodological steps applied in this study to identify products and sectors to inform the potential SACU-USA bilateral trade negotiations were presented and analysed in Sections 6.2.1 to 6.2.5. Hence, the results of the priority products and sectors identified in the USA and SACU are presented and analysed in Section 6.3 and Section 6.4.

6.3 Products and sectors that should be prioritised in the potential SACU-USA bilateral trade negotiations

This study develops a product-level prioritisation method that can be used in the preparation phase of the bilateral trade negotiation process to identify, beforehand, products and sectors that should be prioritised in the negotiation. Consequently, instead of focusing on all products in the negotiation,

⁷³ The data of AVEs of NTMs is only available for the USA. Therefore, the results presented are only from SACU's perspective.

only those products that: possesses consistently large and/or growing import demand, while at the same time consistently exported competitively (sustainable exports); and possess both low market concentration and low tariff-wise market access in the importing market, are prioritised (see Section 4.2).

In the USA market, 407 of the 819 sustained export opportunities characterised by low market concentration in Step 4.1 were also identified with low tariff-wise market access in Step 4.2 (see Table 6.7). On the other hand, 161 of the 398 sustained export opportunities characterised by low market concentration in Step 4.1 were also identified with low tariff-wise market access in Step 4.2. Therefore, products identified with both low tariff-wise market access and concentration in the USA market (407) are selected as the products that SACU should prioritise in the negotiations with the USA. Correspondingly, products identified with both low tariff-wise market access and concentration in the SACU market (161) are selected as the products that the USA should prioritise in the negotiations with SACU.

Table 6.7: Summary of results of products that the USA and SACU should prioritise in the potential SACU-USA trade negotiations, based on tariffs

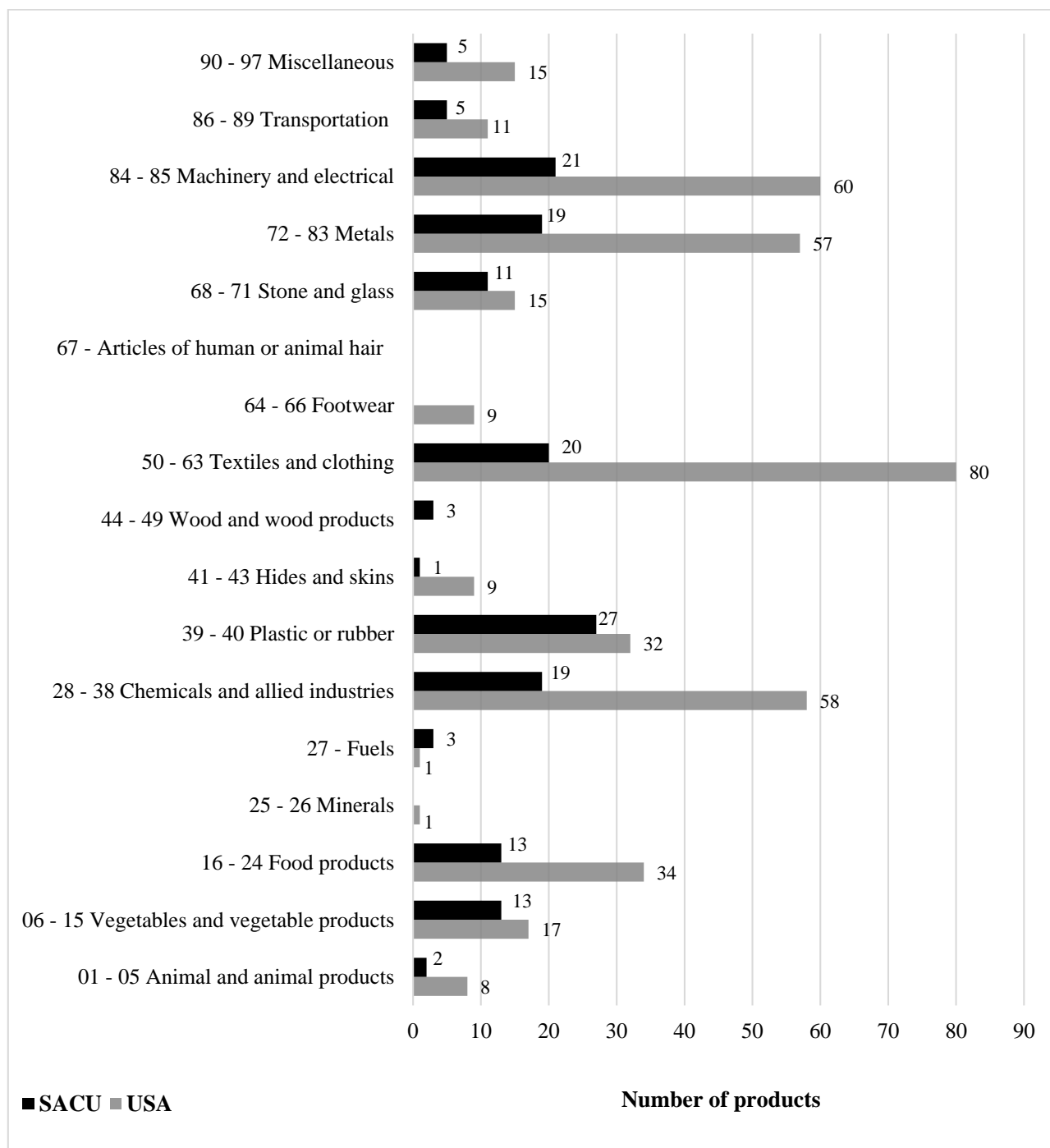
USA	Total
Matched products identified with low market concentration, in Step 4.1, from 2013 to 2017	819
Matched products identified with low tariff-wise market access, in Step 4.2, from 2013 to 2017	526
Priority products for tariff negotiations for SACU in the USA (i.e. matched products identified with both low market concentration and access in Step 4.1 and 4.2)	407
SACU	Total
Matched products identified with low market concentration, in Step 4.1, from 2013 to 2017	398
Matched products identified with low tariff-wise market access, in Step 4.2, from 2013 to 2017	211
Priority products for tariff negotiations for the USA in SACU (i.e. matched products identified with both low market concentration and access in Step 4.1 and 4.2)	161

Source: Author's own table

The majority of products that SACU should prioritise for tariff negotiations with the USA fall within the following sectors (see Figure 6.4): textiles and clothing (80 priority products); machinery and electrical (60); chemicals and allied industries (58); metals (57); and food products (34). Similarly, with the exception of plastic or rubber sector with 27 priority products, the priority sectors for the USA in the SACU market are: machinery and electrical (21); textiles and clothing (20); chemicals and allied industries (19); and metals (19).

These sectors are also consistent with the GTAP simulation results presented and analysed in Step 1.2 (i.e. Scenario 2) of the previous chapter. For instance, the textiles and clothing sector, which comprises most of priority products that the USA should prioritise in the potential negotiation is also expected to significantly improve in terms of sectoral effects of the potential SACU-USA BTA.

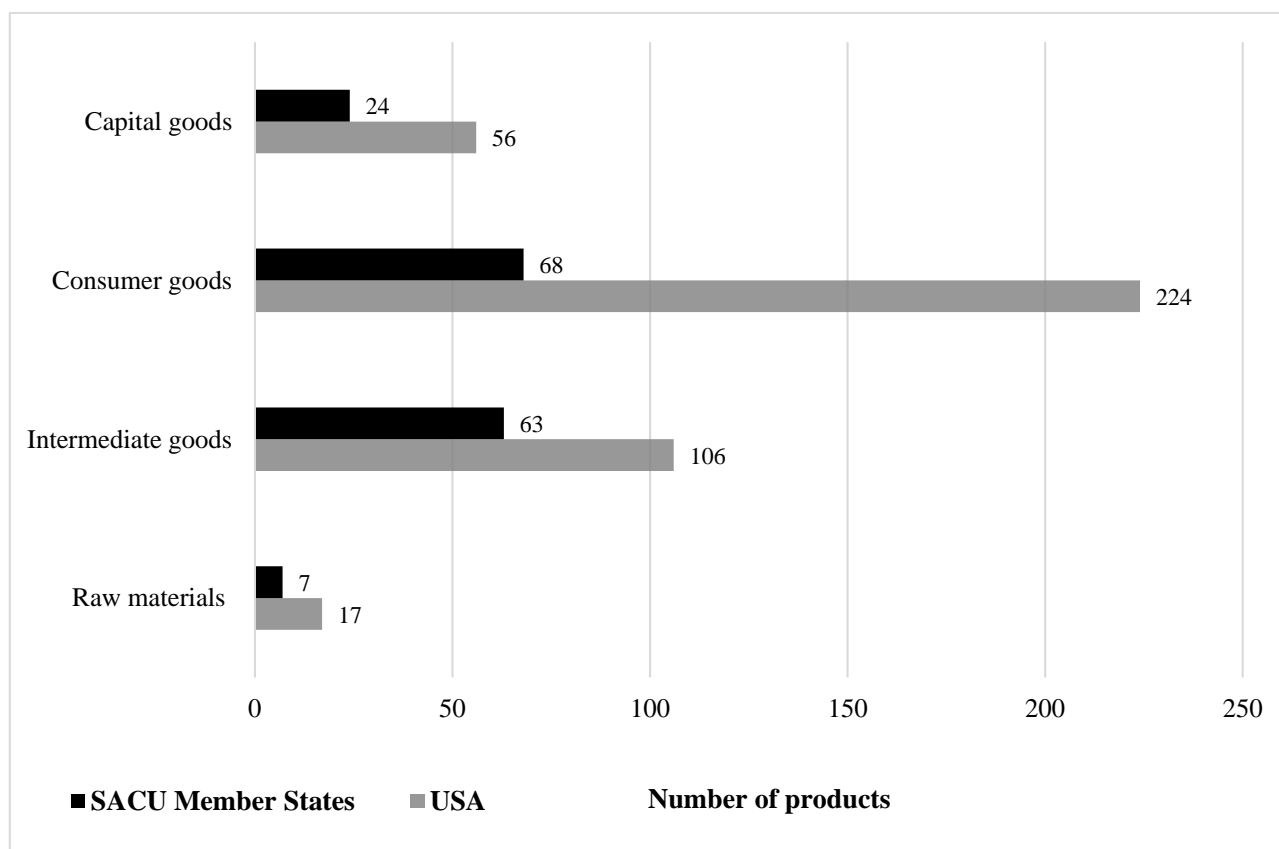
Figure 6.4: Sector-level (HS2-digit level) results of products that the USA and SACU should prioritise in the potential SACU-USA trade negotiations, based on tariffs



Source: Author's own figure based on WB (2019)

The products that the USA and SACU should prioritise in the potential SACU-USA trade negotiations classified according to BEC are shown in Figure 6.5. It is clear that most of the priority products identified in both the USA and SACU are consumer goods, 224 and 68 products, respectively. This is followed by intermediate goods (106 products in the USA and 63 in the SACU market) and, to a much smaller extent, capital goods (56 products in the USA and 24 in the SACU market), and raw materials (17 products in the USA and 7 in the SACU market).

Figure 6.5: Products that the USA and SACU should prioritise in the potential SACU-USA trade negotiations, based on tariffs, categorised by the level of processing



Source: Author's own figure based on WB (2019)

To illustrate the level of detail of the results, examples of products that the USA should prioritise, selected from the top 5 HS2-digit level chapters in Table C.1 in Appendix C, are shown in Table 6.8. Most of the products are in the following top five HS2-digit level chapters: HS39 – plastics and articles thereof; HS84 – nuclear reactors, boilers, machinery and mechanical appliances, and parts thereof; HS40 – rubber and articles thereof; HS73 – articles of iron or steel; HS70 – glass and glassware; and HS85 – electrical machinery and equipment and parts thereof, sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles.

Table 6.8: Examples of products that the USA should negotiate better tariff-wise market access in SACU selected from the top 5 HS2-digit level chapters

Capital Goods		
Chapter Code	HS6 Code	Description
40	401019	Conveyor belts or belting of vulcanised rubber, reinforced with other than metal or textile materials
73	731100	Containers for compressed or liquefied gas, of iron or steel
84	841840	Freezers of the upright type, not > 900 litre capacity
	846210	Forging or die stamping machines (including presses) and hammers
	848330	Bearing housings, not incorporating ball/roller bearings and plain shaft bearings
	848490	Sets or assortments of gaskets and similar joints, dissimilar in composition, put up in pouches, envelopes or similar packings
85	850211	Generating sets with compression-ignition internal combustion diesel or semi-diesel piston engine, of an output ≤ 75 kVA
	852352	Smart cards incorporating one or more electronic integrated circuits
	853540	Lightning arresters, voltage limiters and surge suppressors, for a voltage > 1000 V
	853890	Parts suitable for use solely or principally with the apparatus of heading 8535, 8536 or 8537
Consumer Goods		
Chapter Code	HS6 Code	Description
39	391732	Flexible tubes, pipes and hoses of plastics, without fittings and not reinforced or otherwise combined with other materials
	392690	Articles of plastics and arts of other materials of heading 3901 to 3914, not elsewhere specified
40	400921	Tubes, pipes and hoses, of vulcanised rubber (excluding hard rubber)
	401194	New pneumatic tyres of rubber, of a kind used on construction or industrial handling vehicles and machines, and having a rim size > 61 cm
70	701710	Laboratory, hygienic or pharmaceutical glassware, whether or not graduated or calibrated
	701931	Mats of irregularly laminated glass fibres
73	731816	Nuts of iron or steel
	731824	Cotters and cotter pins of iron or steel
84	843319	Mowers for lawns, parks or sports grounds
85	854470	Optical fibre cables made up of individually sheathed fibres
Intermediate Goods		
Chapter Code	HS6 Code	Description
39	390190	Polymers of ethylene, in primary forms (excluding of product codes 390110 to 390130)
	391610	Monofilament of which any cross-sectional dimensions exceeds 1mm
	392069	Plates, sheets, film, foil and strip, of polyesters not elsewhere specified in heading 3920
	392114	Plates, sheets, film, foil and strip, of regenerated cellular cellulose
40	400220	Butadiene rubber in primary forms or in plates, sheets or strip
	400821	Plates, sheets and strip of non-cellular rubber
70	700510	Non-wired glass, having an absorbent, reflecting or non-reflecting layer
	700521	Glass, coloured throughout the mass (body tinted), opacified, flashed or merely surface ground
73	731419	Woven cloth, other than of stainless steel
	732090	Springs and leaves for springs, of iron or steel

Source: Author's own table

In the case of SACU, most of the products that should be prioritised in trade negotiations with the USA (see Table 6.9) are in the following top five HS2-digit level chapters (see Table C.2 in Appendix C): HS85 – electrical machinery and equipment and parts thereof, sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of

such articles; HS84 – nuclear reactors, boilers, machinery and mechanical appliances, and parts thereof; HS39 – plastics and articles thereof; HS61 – Articles of apparel and clothing accessories, knitted or crocheted; and HS62 – Articles of apparel and clothing accessories, not knitted or crocheted.

Table 6.9: Examples of products that SACU should negotiate better tariff-wise market access in the USA selected from the top 5 HS2-digit level chapters

Capital Goods		
Chapter Code	HS6 Code	Description
84	840290	Parts of steam or other vapour generating boilers
	840810	Marine propulsion engines
	843850	Machinery for the preparation of meat or poultry
	844839	Parts and accessories of machines of heading 8445, not elsewhere specified
	848420	Mechanical seals
85	850134	Direct current motors and generators of an output > 375 KW
	850433	Transformers having a power handling capacity > 16 KVA but ≤ 500 KVA (excluding liquid dielectric transformers)
	851890	Parts of microphones, loudspeakers, headphones, earphones, and audio-frequency electric amplifiers or electric sound amplifier sets, not elsewhere specified.
	853630	Fuses for a voltage ≤ 1000 V
	854091	Parts of cathode-ray tubes, not elsewhere specified
Consumer Goods		
Chapter Code	HS6 Code	Description
39	391721	Rigid tubes, pipes and hoses, of polymers of ethylene
	391810	Floor, wall or ceiling coverings of polymers of vinyl chloride, whether or not self-adhesive, in rolls or in the form of tiles
	392329	Sacks and bags (including cones) for the conveyance or packing of goods, of plastics other than ethylene polymers
61	610120	Men's or boys overcoats, car-coats, capes, anoraks, wind-jackets and similar articles, of cotton, knitted or crocheted (excluding those of heading 6103)
	610721	Men's or boys nightshirts and pyjamas of cotton, knitted or crocheted
	610831	Women's or girls nightdresses and pyjamas of cotton, knitted or crocheted
62	620191	Men's or boys anoraks, incl. ski jackets, windcheaters, wind-jackets and similar articles, of wool or fine animal hair
	620791	Men's or boys singlets and other vests, bathrobes, dressing gowns and similar articles of cotton
85	853929	Electric filament lamps (excluding ultra-violet or infra-red)
	854430	Ignition wiring sets and other wiring sets of a kind used in vehicles, aircraft or ships
Intermediate Goods		
Chapter Code	HS6 Code	Description
28	283531	Sodium triphosphate (sodium tripolyphosphate)
39	390220	Polyisobutylene
	390330	Acrylonitrile-butadiene-styrene copolymers
	391239	Cellulose ethers (other than carboxymethylcellulose and its salts), in primary forms
	391990	Self-adhesive plates, sheets, film, foil, tape, strip and other flat shapes, of plastics
	392112	Plates, sheets, film, foil and strip, of polymers of vinyl chloride
73	732619	Articles of iron or steel, forged or stamped, but not further worked, not elsewhere specified
85	850690	Parts of primary cells and primary batteries, not elsewhere specified
	851690	Electro-thermic appliances
	854710	Insulating fittings of ceramics

Source: Author's own table

As mentioned in Section 6.2.5, the export opportunities with low tariff-wise market access are of particular interest in identifying the products that should be prioritised in the potential SACU-USA bilateral trade negotiations. Nonetheless, those sustained export opportunities that possess a high tariff-wise market access and a low market concentration are assessed, in terms of NTMs, for qualification as additional priority products. The results of the additional priority products are presented and analysed in Section 6.4

6.4 Additional priority products based on Non-Tariff Measures

Sustained export opportunities that possessed high tariff-wise market access were assessed in terms of NTMs as additional priority products based on AVEs. This assessment was only possible for sustained export opportunities for SACU in the USA owing to unavailability of AVEs data for all SACU Member States.⁷⁴ The AVEs of NTMs database covered two types of NTMs, namely technical measures and non-technical measures (WB, 2018b). AVEs of technical measures captures the effects of: sanitary and phytosanitary measures; and technical measures. Likewise, AVEs of non-technical measures captures the effects of: contingent trade measures; quantitative restrictions; price controls and finance measures (UNCTAD, 2015).

A total of 534 matched products that were identified with high tariff-wise market access in the USA were assessed in terms of NTMs based on AVEs (see Table 6.10). Of the 534 matched products, 127 matched products possessed NTM-AVEs > 0%. This means that SACU exporters are faced with NTMs when exporting such products into the USA market. An analysis of the 127 matched products that possessed NTM-AVEs > 0%, in terms of market concentration, revealed that only 99 of the 127 matched products also possessed an HHI < 0.5. Therefore, the 99 matched products that were identified with both NTM-AVEs > 0% and HHI < 0.5 constitute additional products that SACU can prioritise for negotiation, in terms of NTMs, with the USA.

Table 6.10: Additional priority products that SACU should prioritise in the potential trade negotiations with the USA, based on NTMs

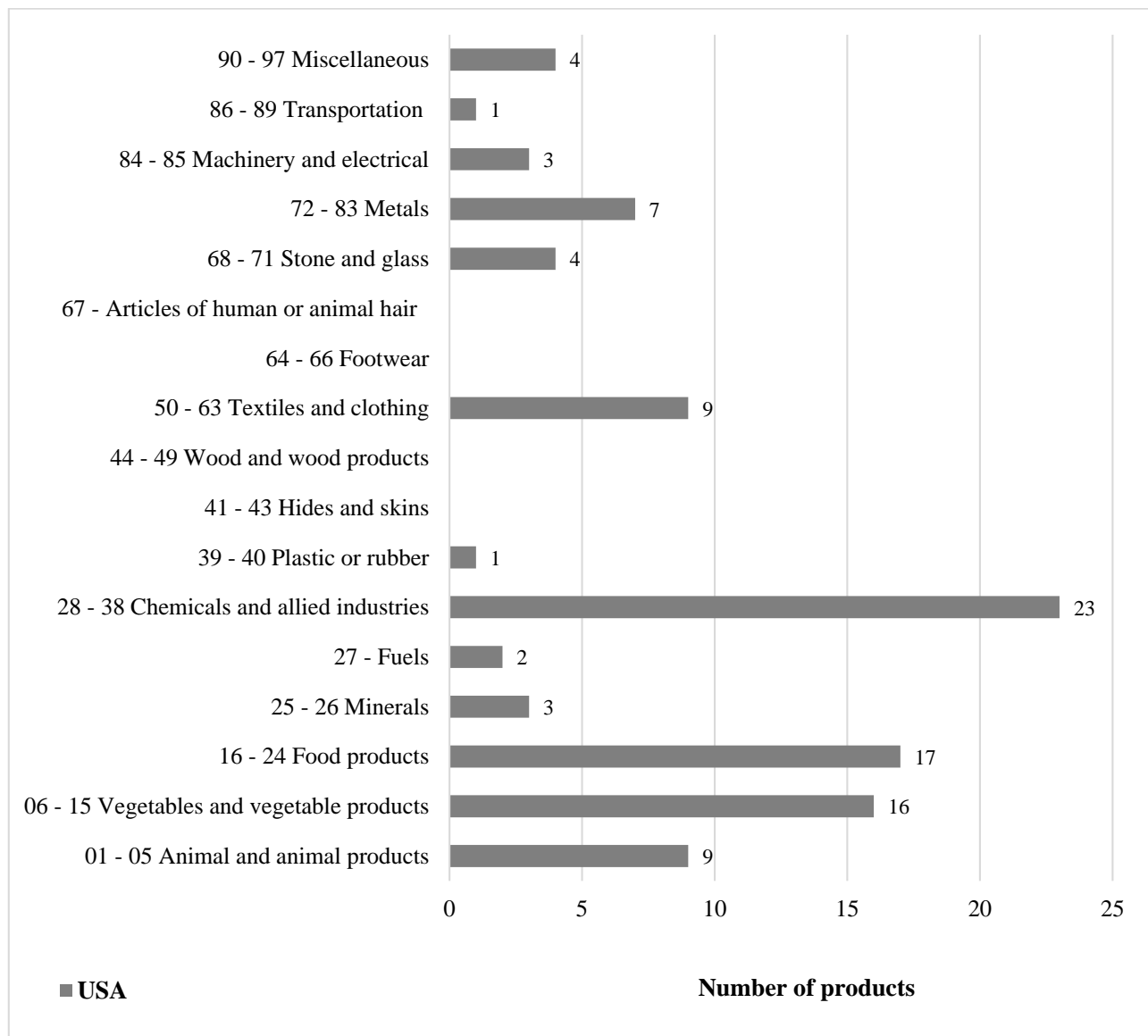
USA	Total
Matched products with high tariff-wise market access from 2013 to 2017	534
Matched products with NTM-AVEs > 0%	127
Matched products with NTM-AVEs > 0% and HHI < 0.5	99

Source: Author's own table

⁷⁴ The WB (2018b) AVEs of NTMs database includes 40 importing countries. However, all SACU countries are not included in the importing countries covered in the database.

HS2-digit level results of additional products that SACU should prioritise in the potential SACU-USA BTA, based on NTMs, are shown in Figure 6.6. The majority of the additional products fall under the following sectors: chemicals and allied industries (23 additional priority products); food products (17); vegetables and vegetable products (16); animal and animal products (9); textiles and clothing (9); and metals (7).

Figure 6.6: Sector-level (HS2-digit level) results of additional products that SACU should prioritise in the potential trade negotiations with the USA, based on NTMs

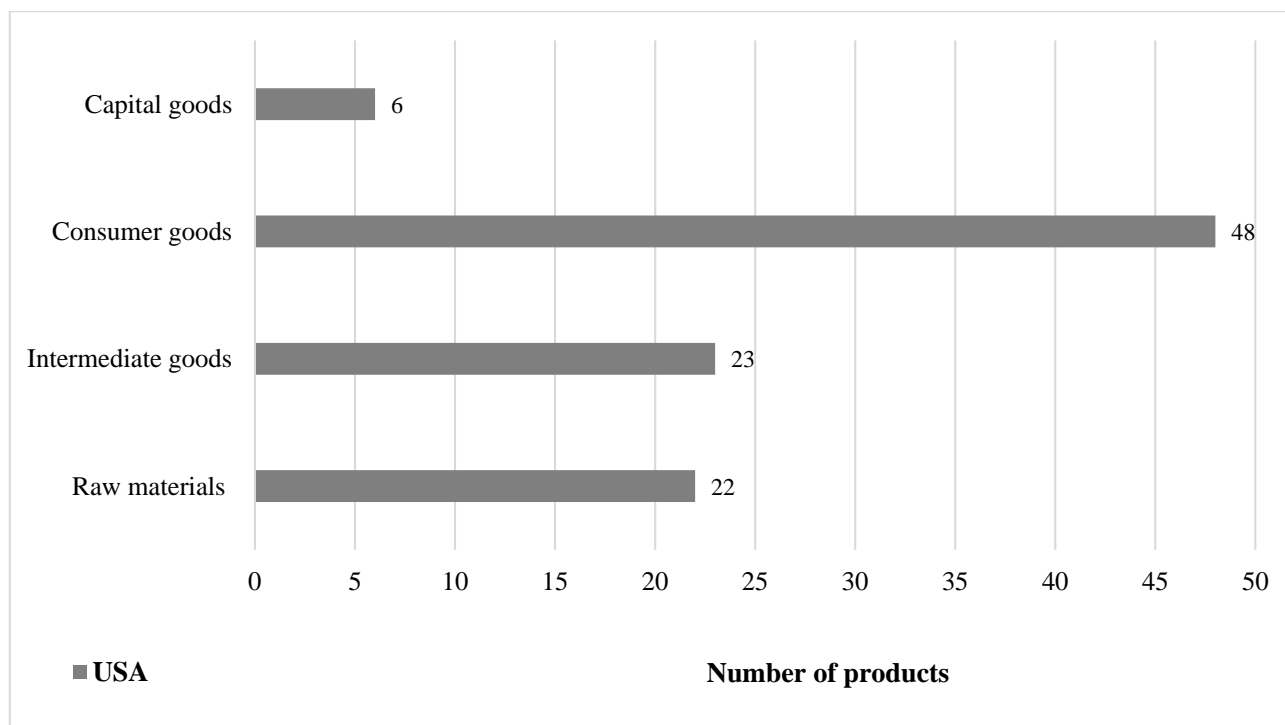


Source: Author's own figure based on WB (2019)

A classification of the additional products that SACU should prioritise in the potential trade negotiations with the USA, based on NTMs, is shown in Figure 6.7. Almost half (i.e. about 49%) of the additional priority products identified in the USA are consumer goods. This is followed by intermediate goods (23%) and raw materials (22%). Only about 6% of the additional priority

products for SACU in the USA are capital goods. While the USA levies 0% tariffs on these products, it imposes NTMs, which make the USA market not easily accessible to SACU exporters seeking to exploit such sustained export opportunities.

Figure 6.7: Additional products that SACU should prioritise in the potential trade negotiations with the USA, based on NTMs, categorised by the level of processing



Source: Author's own figure based on WB (2019)

Examples of additional products that SACU should prioritise, based on NTMS, selected from the top five HS2-digit level chapters in Table C.3 in Appendix C, are shown in Table 6.11. Most of the products are in the following top five HS2-digit level chapters: HS33 – essential oils and resinoids, perfumery, cosmetic or toilet preparations; HS20 – reparations of vegetables, fruit, nuts, or other parts of plants; HS30 – pharmaceutical products; HS03 – fish and crustaceans, molluscs, and other aquatic invertebrates; and HS34 – soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles.

As mentioned, most of the additional priority products for SACU identified in the USA, based on NTMs, are consumer goods. This may be partially explained by the fact that most of the products that fall under consumer goods are highly subjected to technical measures, particularly, in the form of sanitary and phytosanitary measures.

Table 6.11: Examples of additional products that SACU should negotiate better market access in the USA, based on NTMs, selected from the top 5 chapters

Consumer Goods		
Chapter Code	HS6 Code	Description
33	330410	Lip make-up preparations
	330420	Eye make-up preparations
	330491	Make-up or skin care powders, including baby powders, whether or not compressed
	330499	Beauty or make-up preparations and preparations for the care of the skin
	330510	Shampoos
	330590	Preparations for use on the hair (excluding shampoos, preparations for permanent waving or straightening and hair lacquers)
	330620	Yarn used to clean between the teeth (dental floss), in individual retail packages
	330690	Preparations for oral or dental hygiene, incl. denture fixative pastes and powders
20	200540	Peas, prepared or preserved otherwise than by vinegar or acetic acid (excl. frozen)
	200551	Shelled beans, prepared or preserved otherwise than by vinegar or acetic acid
	200860	Cherries, prepared or preserved, whether or not containing added sugar or other sweetening matter or spirit
	200911	Frozen orange juice, unfermented, whether or not containing added sugar or other sweetening matter (excl. containing spirit)
	200941	Pineapple juice, unfermented, brix value ≤ 20 at 20°C, whether or not containing added sugar or other sweetening matter (excl. containing spirit)
	200949	Pineapple juice, unfermented, brix value > 20 at 20°C, whether or not containing added sugar or other sweetening matter (excl. containing spirit)
30	300390	Medicaments consisting of two or more constituents mixed together for therapeutic or prophylactic uses, not in measured doses or put up for retail sale
	300410	Medicaments containing penicillins or derivatives thereof with a penicillanic acid structure or streptomycins or derivatives thereof, put up in measured doses or in forms or packings for retail sale
	300420	Medicines with antibiotics, put up in measured doses or in forms or packings for retail sale
	300490	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes, put up in measured doses or in forms or packings for retail sale
	300510	Adhesive dressings and other articles having an adhesive layer, impregnated or covered with pharmaceutical substances or put up for retail sale for medical or veterinary use
	300610	Sterile surgical catgut and similar sterile suture materials
34	340111	Soap and organic surface-active products and preparations, in the form of bars, cakes, moulded pieces or shapes; and paper, wadding, felt and nonwovens, impregnated, coated or covered with soap or detergent, for toilet use (incl. medicated products)
	340119	Soap and organic surface-active products and preparations, in the form of bars, cakes, moulded pieces or shapes; and paper, wadding, felt and nonwovens, impregnated, coated or covered with soap or detergent (excl. those for toilet use and incl. medicated products)
	340120	Soap in the form of flakes, granules, powder, paste or in aqueous solution
	340520	Polishes, creams and similar preparations, for the maintenance of wooden furniture, floors or other woodwork
	340600	Candles, tapers and the like
Raw Materials		
Chapter Code	HS6 Code	Description
03	30231	Fresh or chilled albacore or long finned tunas
	30235	Fresh or chilled Atlantic and Pacific bluefin tuna
	30611	Frozen rock lobster and other sea crawfish, even smoked, whether in shell or not
	30619	Frozen crustaceans, even smoked, fit for human consumption, whether in shell or not
Intermediate Goods		
Chapter Code	HS6 Code	Description
03	30799	Molluscs, fit for human consumption, even in shell, smoked, frozen, dried, salted or in brine

Source: Author's own table

A summary of the main findings of this chapter is provided in the following section.

6.5 Summary

The results of the research method applied in this study to identify products and sectors that SACU and the USA should prioritise in the potential SACU-USA bilateral trade negotiations were presented and analysed in this chapter.

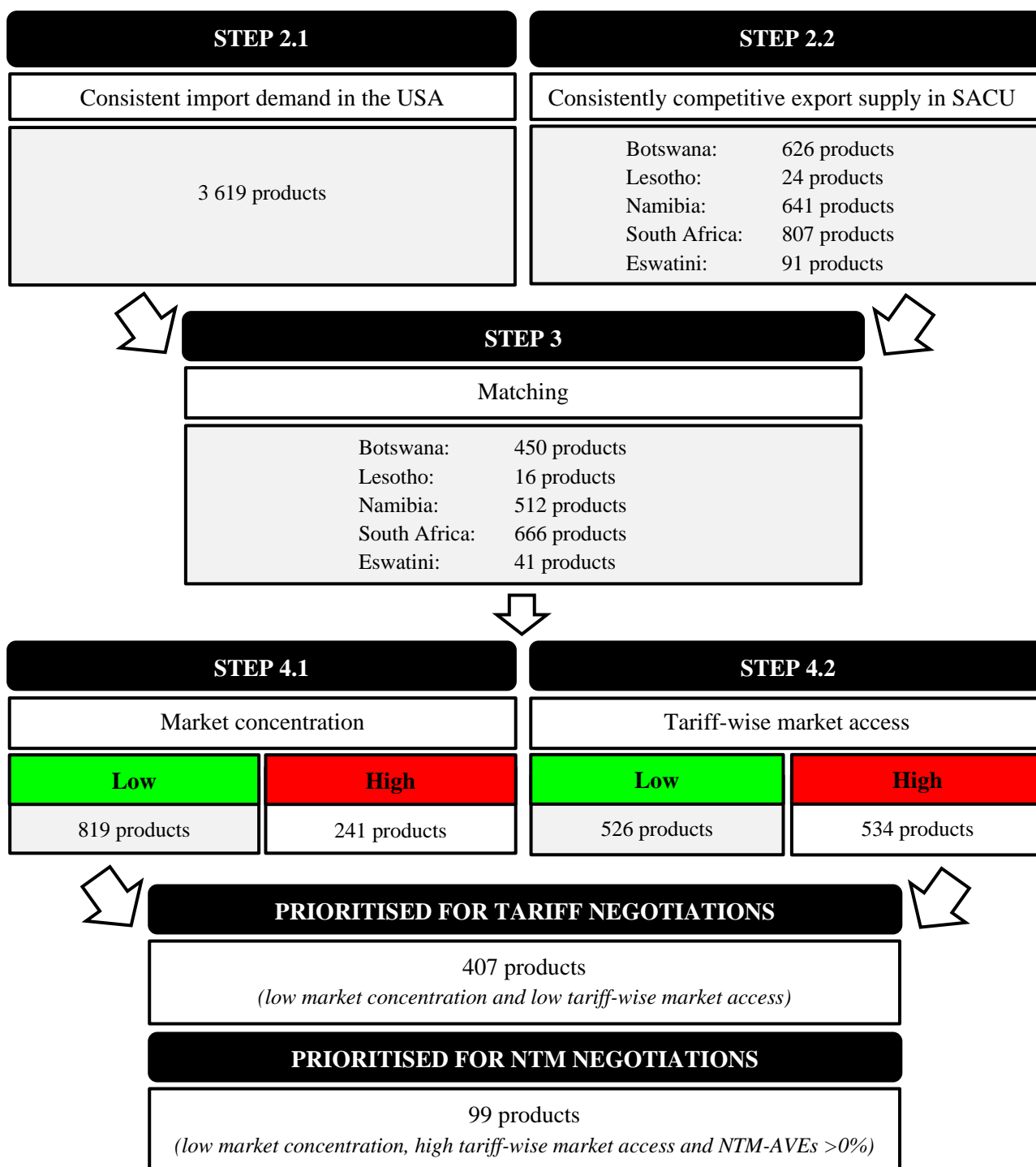
The results of Step 2.1 in which consistently large and/or growing import demand in the USA and SACU was identified for all products at HS6-digit level are presented and analysed in Section 6.2.1. Of the 4 952 products imported by the USA, 3 619 were identified with consistently large and/or growing import demand over the five-year period from 2013 to 2017 (see Figure 6.8). On the other hand, of the 5 199 products collectively imported by SACU countries, a total of 1 892 were identified with consistently large and/or growing import demand over the five-year period under analysis. As revealed in Figure 6.9, the majority of the products were identified in Namibia, South Africa and Botswana, respectively.

The exports of the USA and SACU were analysed in Step 2.2 to identify products these countries consistently export competitively (i.e. sustainable exports). Of the 4 959 products exported by the USA to all its trading partners globally, a total of 1 197 products fulfilled the selection criteria; that is, $RCA \geq 1$ and $RTA > 0$ in all the five years from 2013 to 2017 (see Figure 6.8). For SACU, 1 391 of the 5 112 products collectively exported by the member countries to all their trading partners around the world fulfilled the selection criteria (i.e. $RCA > 0.7$ and $RTA > 0$) in all the five years from 2013 to 2017 (see Figure 6.9).

Products identified with consistently large and/or growing import demand in the USA (3 619) and SACU (1 892) were matched to SACU's (1 391) and USA's (1 197) consistently competitive export supply, in Step 3. A total of 1 060 matched products (sustained export opportunities) were identified in the USA market over the five-year period from 2013 to 2017. In the SACU market, 539 sustained export opportunities were identified over the same period. Most of these sustained export opportunities were identified in South Africa, Namibia and Botswana.

The degree of market concentration in the USA and SACU import markets was assessed in Step 4.1. Of the 1 060 matched products identified in the USA market in Step 3, a total of 819 had low market concentration over the period 2013 to 2017 (see Figure 6.8). In the SACU market, 496 of the 686 sustained export opportunities for the USA identified in Step 3 were characterised by low market concentration. The majority of the sustained export opportunities with low market concentration were identified in South Africa, Namibia and Botswana (see Figure 6.9).

Figure 6.8: Summary of results of methodological steps to identify priority products for SACU member countries in the USA market

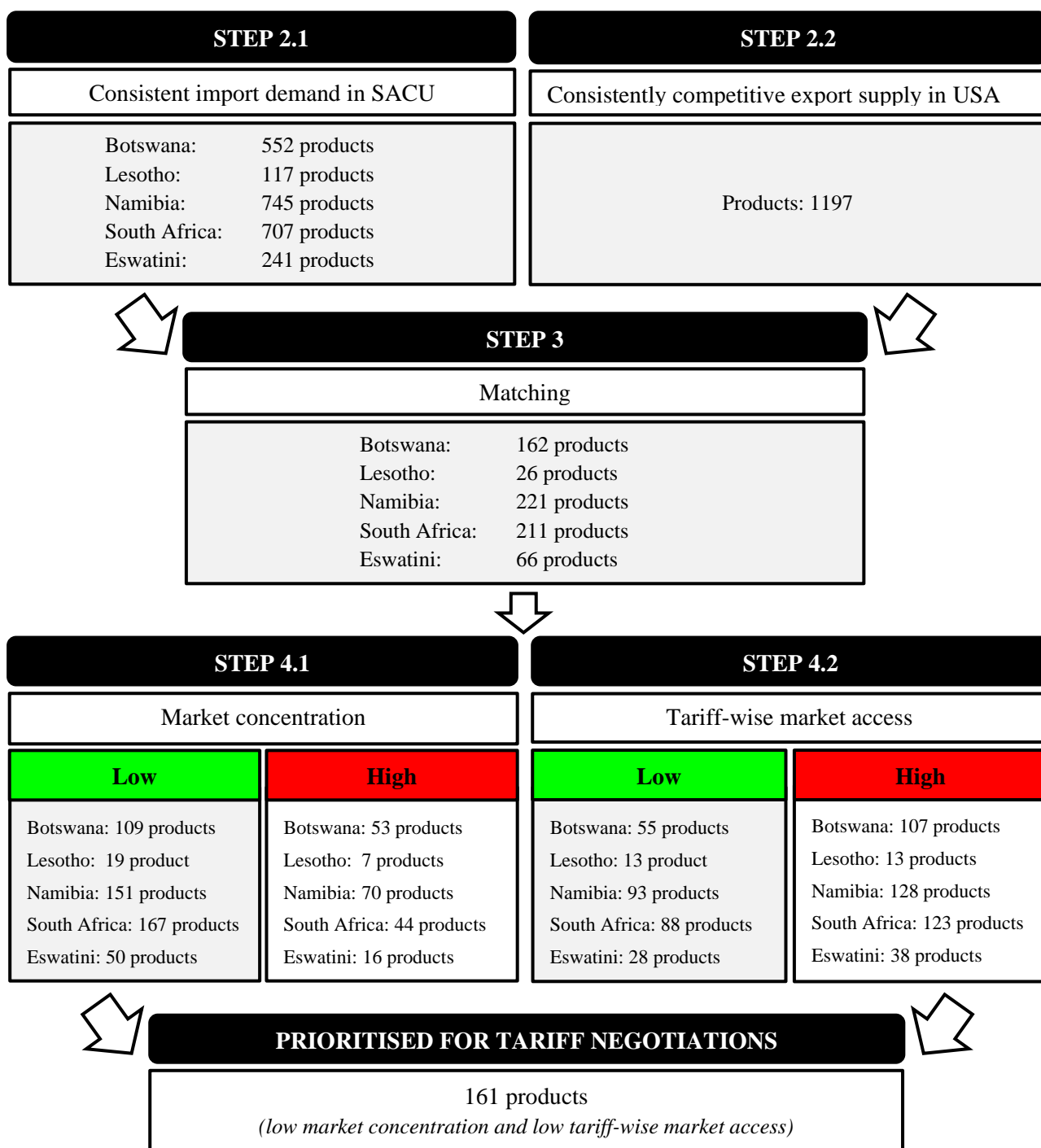


Source: Author's own figure

Step 4.2 assessed the degree of tariff-wise market access, in the USA and SACU, for the sustained export opportunities identified in Step 3. In the USA market, 526 of the 1 060 matched products identified in Step 3, over the five-year period from 2013 to 2017, were characterised by low tariff-wise market access. In the case of SACU, 162 of the 539 matched products identified in Step 3, over the five-year period from 2013 to 2017, were characterised by low tariff-wise market access.

The sustained export opportunities characterised by low tariff-wise market access in both the USA and SACU market entails that the USA and SACU market is not easily accessible to SACU and the USA exporters seeking to exploit such sustained export opportunities.

Figure 6.9: Summary of results of methodological steps to identify priority products for the USA in SACU market



Source: Author's own figure

In the USA and SACU market, sustained export opportunities characterised by both low market concentration (in Step 4.1) and low tariff-wise market access (in Step 4.2), were selected as the

products that SACU and the USA should prioritise in the potential SACU-USA bilateral trade negotiations. In this regard, 407 products identified with both low tariff-wise market access and concentration in the USA market were selected as the products that SACU should prioritise in the potential trade negotiations with the USA. Likewise, 161 products identified with both low tariff-wise market access and concentration in the SACU market were selected as the products that the USA should prioritise in the negotiations of the same potential trade deal. With the exception of the plastic or rubber sector, most of the products that the USA and SACU should prioritise in the trade negotiations were identified in the following sectors: machinery and electrical; textiles and clothing; chemicals and allied industries; and metals.

Sustained export opportunities that possessed high tariff-wise market access in the USA were assessed in terms of NTMs as additional priority products for SACU, based on AVEs. In this regard, 99 matched products that were identified with both AVEs of $NTM > 0\%$ and $HHI < 0.5$ constituted additional products that SACU can prioritise for trade negotiations, in terms of NTMs, with the USA. Most of the additional priority products for SACU identified in the USA, based on NTMs, are consumer goods

Summary, conclusions, contributions, recommendations and final remarks of this study are provided in Chapter 7.

CHAPTER 7: CONCLUSIONS AND RECOMMENDATIONS

7.1 Introduction

Since the inception of the World Trade Organization (WTO) in 1995, multilateralism has been the dominant approach to trade liberalisation. However, an increasing tendency towards bilateralism and/or regionalism has been witnessed in recent years. Even though the inclination towards bilateralism is growing, in the preparation phase of the bilateral trade negotiation process, the evidence on product-level prioritisation methods, specifically designed to inform trade negotiations by considering both countries' core export competences and the size, growth and consistency of the import demand, is silent. This is despite some developing countries commonly facing capacity constraints in terms of trade policy analysis and negotiation.

The main objective of this study was to contribute to the trade negotiation literature by developing a product-level prioritisation method, which specifically considers both countries' core export competencies and the size, growth and consistency of the import demand, in the preparation phase of bilateral trade negotiations. The product-level prioritisation method is crucial, more specifically in the case of some developing countries that may face capacity constraints in terms of trade policy analysis and negotiation. Hence, negotiating parties commonly focus on as many products and sectors as possible in the negotiations without taking their core export competencies and the size, growth and consistency of the import demand into consideration. This inevitably means that the survival and sustainability of trade relations resulting from such negotiations can be negatively affected. Furthermore, the fairness of the trade deal as inspired by a win-win negotiation outcome might also be adversely affected.

In order to achieve the main objective of this study, elements of three research methodologies, namely the Global Trade Analysis Project (GTAP) model of Hertel (1997), the Decision Support Model (DSM) of Cuyvers *et al.* (1995) and Cuyvers and Viviers (2012), and the Market Attractiveness Index (MAI) of the International Trade Centre (ITC, 2008), were combined to develop the product-level prioritisation method. The approach was suggested for implementation into the preparation phase of the bilateral trade negotiation process and applied in the case of SACU and the USA to identify products and sectors that both parties should prioritise in the potential SACU-USA bilateral trade negotiations.

Between 2003 and 2007, SACU and the USA attempted to negotiate an FTA, but the talks collapsed. While there were many contested issues that led to the collapse of the negotiations, the scope of the trade agreement, USA's farm subsidies, and capacity constraints as well as the

diversity and deficiency of coherence in trade and investment policy within SACU, were contemplated as the prime impediments (see Section 1.3). However, the global as well as domestic political and economic environment has significantly transformed in the previous decade. Therefore, SACU can again engage the USA in negotiation of a reciprocal BTA.

Currently, there is uncertainty surrounding the renewal of the African Growth and Opportunity Act (AGOA) after its expiry in 2025. However, SACU members and many other Sub-Saharan Africa (SSA) AGOA beneficiary countries primarily access the USA market through AGOA. The uncertainty surrounding the renewal of AGOA, after its expiry in 2025, means that the post-AGOA trade relationship between SACU and the USA remains undefined. In preparation for its post-AGOA relationship with the USA, there are two options that SACU can consider. The first option is to permit AGOA to expire without making any alternative trade arrangements with the USA. The second option is to engage the USA in negotiation of a reciprocal BTA.

This study proposes that, to be pro-active, SACU has to engage the USA in negotiation of a reciprocal trade agreement. Considering the importance of exports in SACU countries' economic growth prospects and the significance of the USA market in their export accomplishments, freer trade with the USA opens up benefits for both SACU and USA exporters and importers. Hence, this substantiates the need for SACU to lock-in AGOA benefits by negotiating a reciprocal trade agreement with the USA. The agreement should build on AGOA by strengthening trade and investment relations, while addressing AGOA drawbacks and taking reciprocity into account.

In Chapter 2, the theoretical basis of this study was established by providing a theoretical framework and a review of literature relating to free trade and the international political economy, trade negotiations, trade negotiation and trade policy analysis capacity constraints, trade agreements, and market access. An overview of SACU-USA trade relations as well as the trade policy of both SACU and the USA was provided in Chapter 3. A detailed description of the data and the research method applied in this study to identify products and sectors that SACU and the USA should prioritise in the negotiation of the potential SACU-USA reciprocal trade agreement was provided in Chapter 4. The empirical results of the GTAP analysis of the possible welfare, macroeconomic and sectoral effects of the expiry of AGOA with no alternative SACU-USA reciprocal trade agreement in place *versus* a potential fully liberalised SACU-USA reciprocal trade agreement were provided in Chapter 5. The empirical results of the products and sectors that should be prioritised by SACU and the USA in the negotiation of the potential SACU-USA reciprocal trade agreement were presented and analysed in Chapter 6.

A summary of the chapters in which different objectives of this study (stated in Section 1.5) were addressed, is provided in Table 7.1.

Table 7.1: Chapters in which each of the objectives of this study were addressed

Overall objective		Chapter
1.	Contributing to the trade negotiation literature by developing a product-level prioritisation method, which specifically considers both countries' core export competencies and the size, growth and consistency of the import demand, to inform bilateral trade negotiations	Chapter 4
Secondary objectives		Chapter
1.	Providing a theoretical framework of this study and discussing the economics of free trade and the international political economy, trade negotiations, trade negotiation and trade policy analysis capacity constraints, trade agreements, and market access as highlighted in international trade literature	Chapter 2
2.	Providing an overview of SACU-USA trade relations as well as the trade policy of both SACU and the USA	Chapter 3
3.	Assessing the possible welfare, macroeconomic and sectoral effects of an increase in USA tariffs applied on SACU, if AGOA is not renewed, <i>versus</i> a potential fully liberalised SACU-USA reciprocal trade agreement	Chapter 5
4.	Applying the product-level prioritisation method developed in this study to identify priority products and sectors to inform the potential SACU-USA bilateral trade negotiations	Chapter 6
5.	Offer recommendations to SACU Member States and USA policymakers as to which products and sectors they should focus their attention on in the potential SACU-USA trade negotiations	Chapter 7

Source: Author's own table

The summary of subsequent chapters and conclusions reached in this study is provided in Sections 7.2.1 to 7.2.5.

7.2 Summary and conclusions of this study

7.2.1 Chapter 2: Literature review

In Chapter 2, the theoretical underpinning of this study was provided and the literature relating to free trade and the international economy, trade negotiations, trade negotiation and trade policy analysis capacity constraints, trade agreements, and market access, was discussed as highlighted in international trade and negotiations literature. From a theoretical standpoint, the preliminary attempts to analyse economic challenges appear in the literatures of the ancient Greeks. However, there was little formal analysis of international trade activities until the development of merchant

capitalism in Western Europe during the 15th century. This saw the rise of Mercantilists, Physiocrats, and Classical economists, among others, and led to the development of classical international trade theories, which laid the foundation of free trade as it is known today.

Various theoretical approaches have been put forward to explain why countries negotiate and sign trade agreements. In this regard, significant direct theoretical approaches to why countries negotiate and sign trade agreements include the Terms of Trade (TOT) externality theory and the commitment theory (see Section 2.2.1). The TOT externality theory states that the presence of negative externalities from unilateral trade policies entails that the Nash equilibrium involving unilateral trade policy will be inefficient. Therefore, the purpose of trade agreements is to eliminate the TOT externality. The commitment theory, on the other hand, views trade agreements as commitment instruments that ineffective administrations can use to weaken domestic protectionist pressure from domestic producers. Hence, trade liberalisation occurs because the existence of the foreign government directly stimulates the collaborations between the domestic government and domestic special interests' groups in diminishing domestic tariffs.

From a negotiation perspective, the question why countries negotiate and sign trade agreements can be directly approached through two well-known negotiation theories, namely the game and the linkage theories (see Section 2.2.2). According to game theory, on a global level, governments of trading countries find themselves in circumstances similar to the dual-player game theory setting, well-known as the Prisoner's Dilemma (PD). If each trading country pursues a unilateral trade policy, the consequence is a symmetric outcome in which each country is worse-off. However, if countries choose to cooperate and engage in trade negotiations aimed at liberalising trade, they can evade the reciprocally destructive inclinations of protectionism and, therefore, become better-off than if they act in isolation. In terms of linkage theory, current negotiations are seen as linked to past negotiations that the parties have undertaken. Consequently, a previous negotiation may often influence or govern the procedure and/or outcome of a separate negotiation.

While it is well documented that free trade is beneficial for economic growth and prosperity, occurrences in the international political economy have profound effects on free trade policy (see Section 2.3). In fact, trade is at all times political. Consequently, the economics of trade cannot be alienated from its political facets. Besides drawing nations together, trade also creates a great deal of rigidity and conflict between and amongst various nations. However, cooperation (trade liberalisation) is more beneficial in contrast to protectionism. Indeed, protectionist tendencies generate unfavourable effects for both the imposing country and the receiving country. Therefore, proliferation of international trade under the auspices of the WTO has led to considerable expansion

of trade liberalisation in the past decades.

Countries engage in trade negotiations, which follow a systematic process (see Section 2.4.1), for numerous reasons, which include economic, political and strategic motives. In recent years, countries progressively play a part in multilateral trade negotiations, while simultaneously concluding BTAs and/or RTAs. What is certain is that they undoubtedly anticipate benefits in either circumstance. In some instances, countries negotiate and conclude trade agreements of plurilateral and unilateral nature. However, a comparison of multilateral and other forms of trade negotiations reveals that multilateral trade negotiations possess several merits over the other types of trade negotiations.

Whereas developed countries enjoy sufficient trade negotiation and trade policy analysis capacity, the developing and LCDs are commonly constrained by inadequate resources, insufficient capacity, and lack of expertise (see Section 2.5). Regardless of these capacity constraints faced by some developing countries, quantitative trade policy analysis has nowadays become more crucial than it has ever been. Even though quantitative analysis cannot provide all the answers to trade policy questions, it can assist in navigating the trade policy formulation process and to warrant that preferences are grounded on thorough awareness of fundamental realities. The belief is that respectable trade policy needs to be supported by decent quantitative trade policy analysis.

Even though the trend towards bilateralism and regionalism has been growing in recent years, the WTO is of the view that other forms of trade liberalisation cannot replace the multilateral trading system (see Section 2.6). Instead of replacing multilateralism, these approaches to trade liberalisation should complement it. However, it should be acknowledged that they represent alternative trade policy options to multilateralism. In fact, almost every member of the WTO, including SACU Member States and the USA, is also a member of at least one trade agreement outside the multilateral system. The primary aim of such agreements is to enhance market access through the elimination of trade and investment barriers (see Section 2.7).

An overview of SACU-USA trade relations as well as the trade policies of both SACU and the USA was provided in Chapter 3.

7.2.2 Chapter 3: SACU-USA trade relations and individual trade policy

It is acknowledged in Chapter 3 that the USA is one of the significant traditional trading partners of SACU countries. However, no trade agreement that includes tariff concessions exist between SACU and the USA. A TIFA, namely TIDCA, is in place, but it is designed to assist in laying the foundation for a future reciprocal trade agreement between SACU and the USA. Hence, trade

relations between SACU and the USA are primarily governed by the WTO's MFN principle. However, two unilateral trade arrangements, namely the GSP and AGOA, additionally govern the trade relations between SACU and the USA.

In addition to non-reciprocal trade arrangements (i.e. the GSP and AGOA), SACU has signed the EFTA-SACU FTA with the EFTA, the EU-SADC EPA where SACU Member States are signatories to the agreement under the SADC, and the AfCFTA. The Mercosur-SACU PTA, which is aimed at reducing tariffs on selected goods and promoting trade between the members of Mercosur and SACU, is also in place. Currently, SACU is negotiating a preferential trade agreement with India, and SACU countries are also participating in the negotiations of Tripartite FTA, as members of SADC.

The USA, on the other hand, has signed 14 FTAs with 20 countries. Only one of those FTAs was concluded on the African continent, with Morocco. In fact, the USA's trade and investment relations in Africa are in the form of TIFAs and BITs. The country also extends unilateral trade arrangements to a number of developing countries in the form of GSP, AGOA and the CBI. The primary aim of such unilateral trade arrangements is to enhance the beneficiary countries access into the USA market. This, in turn, assists them to utilise trade as a tool to expand their economies and alleviate poverty. The USA is currently not participating in any trade negotiations, although plans to commence negotiations of a BTA with Kenya were publicised in 2019.

If the bilateral trade negotiations between the USA and Kenya materialise, the negotiating parties' core export competencies and the size, growth and consistency of the import demand have to be considered. This can be achieved through the application of the product-level prioritisation method developed in this study in identifying products and sectors that the USA and Kenya should prioritise in the negotiations. This will assist in enhancing the fairness of the trade deal as well as the trade policy analysis and negotiation capacity of Kenya, in particular.

7.2.3 Chapter 4: Research method

Having established the theoretical basis of this study in Chapter 2, and having provided an overview of SACU-USA trade relations as well as the trade policy of both SACU and the USA in Chapter 3, a discussion of the product-level prioritisation method developed in this study and suggested for implementation into the preparation phase of the bilateral trade negotiation process, followed in Chapter 4. The product-level prioritisation method was applied in the case of SACU and the USA to identify products and sectors that both parties should prioritise in the negotiation of a potential reciprocal trade agreement.

Identification of priority products and sectors, as part of the activities undertaken in the preparation phase of the bilateral trade negotiation process is crucial, more especially, in the case of developing countries that may face trade policy analysis and negotiation capacity constraints. As mentioned, in addition to augmenting the trade policy analysis and negotiation capacity of developing countries, in particular, the product-level prioritisation method assists in enhancing the fairness of the trade deal. This emanates from its ability to enable both parties to include, but not limited to, a basket of products that they can produce and consistently export competitively (i.e. sustainable exports), while at the same time possessing consistently large and/or growing import demand in the importing market. Besides taking differences in the members' core export competencies and the size, growth and consistency of the import demand into consideration, survival and sustainability of bilateral export initiatives emanating from the concluded reciprocal trade deal are also preserved.

The product-level prioritisation method employed in this study consisted of four steps. The first step focused on the: GTAP analysis of the estimated welfare, macroeconomic and sectoral effects of a possible increase in USA tariffs applied on SACU, when USA tariffs revert to MFN levels after the expiry and probable non-renewal of AGOA in 2025, in Step 1.1/Scenario 1 (see Section 4.2.1); and GTAP analysis of the possible welfare, macroeconomic and sectoral effects of a potential full trade liberalisation policy reform between SACU and the USA in which they eliminate all their import taxes and export subsidies to their bilateral trade, in Step 1.2/Scenario 2 (see Section 4.2.2). The current version (i.e. GTAP Version 10) was used to perform the model simulations in this step. The GTAP 10 database features four reference years (i.e. 2004, 2007, 2011 and 2014) along with 141 GTAP regions for all the 65 GTAP sectors.

For the model experiments simulated in Step 1, the 141 GTAP regions were aggregated to 10 new regions, while the 65 GTAP sectors were aggregated to 10 new sectors. The eight GTAP factors were aggregated to four new factors with labour and capital considered mobile, while land (ETRAE value = -1.000) and natural resources (ETRAE value = -0.001) were considered sluggish. The "standard general equilibrium closure" of the GTAP model was adopted for all simulations performed in Step 1. In addition, the unemployment closure was applied in the case of SACU countries. In order to ensure maximum accuracy of the simulations performed, the Gragg's 2-4-6 steps solution method with "automatic accuracy" option permitted was utilised.

The second step focused on the import demand and export supply side. On the demand side, consistently large and/or growing import demand in the USA and in SACU, for all products at the HS6-digit level, was identified in Step 2.1 (see Section 4.2.3). This step followed the approach applied in Cuyvers *et al.* (1995:179) and Cuyvers (1997:6; 2004:259-260) in classifying markets

with large and/or growing import demand. However, similar to Mhonyera *et al.* (2018), this study repeats this analysis annually, for five times, in order to identify those markets (in SACU and the USA, in this case) with consistently large and/or growing import demand.

On the supply side, products that SACU and the USA consistently export competitively (i.e. sustainable exports) were identified in Step 2.2 (see Section 4.2.4). The Revealed Trade Advantage (RTA), Revealed Comparative Advantage (RCA) and the Revealed Import Advantage (RMA) indices were calculated for the purpose of identifying SACU and the USA's sustainable exports. The RTA index, which consider both exports and imports, is a proxy for product-level export competitiveness. It is obtained from subtracting the RMA index from the RCA index. The RCA and the RMA indices are both indicators of international trade specialisation. The RCA index quantifies a country's level of specialisation in exporting a particular product, while the RMA index quantifies a country's level of specialisation in importing a particular product. Following Mhonyera *et al.* (2018), an assumption is made in this study that, if a product is exported consistently with a comparative advantage (i.e. $RTA > 0$ and $RCA > 0.7$), over a five-year period, it can be classified as a sustainable export product (see Section 4.2.4).

The third step focused on matching products with consistently large and/or growing import demand in the USA market to SACU's consistently competitive export supply products and *vice-versa* (see Section 4.2.5). Only product-country combinations that qualified in step 2.1, matching products that qualified in step 2.2, were selected in this step. Those product-country combinations with consistently large and/or growing import demand in the USA and SACU, but SACU or the USA cannot export the products consistently competitively were eliminated in this step. This also applies to those product-country combinations that do not possess consistently large and/or growing import demand in the USA and SACU, even though SACU or the USA exports the products consistently competitively.

The fourth step focused on: assessing the degree of concentration in the USA and SACU market, in Step 4.1 (see Section 4.2.6); and assessing the degree of SACU's tariff-wise market access in the USA and USA's tariff-wise market access in SACU, in Step 4.2 (see Section 4.2.7). The Herfindahl-Hirshmann Index (HHI) of Hirshmann (1964) was used to measure the degree of SACU and the USA's market concentration. The index values lie between 0 and 1. Sustained export opportunities with an $HHI < 0.5$ were considered to be characterised by low market concentration, while those products with an $HHI \geq 0.5$ were considered to be characterised by high market concentration.

The tariff-wise market access dimension of the ITC (2008) MAI was used to measure the degree of tariff-wise market access in Step 4.2. The index values lie between 0 and 100. Sustained export opportunities with an ease of tariff-wise market access index below 75 (indicating a tariff > 0%) were considered to have a low degree of market access. On the other hand, sustained export opportunities with an ease of tariff-wise market access index equal to or above 75 (indicating a tariff of 0%) were considered to have a high degree of market access.

Sustained export opportunities that were characterised by both low market concentration and low market access were identified as the priority products and sectors that should be prioritised in the potential SACU-USA trade negotiations.

Step 1 of the product-level prioritisation method served as a measure of assessment of the possible welfare, macroeconomic and sectoral effects emanating from a trade protectionist policy reform (i.e. Step 1.1/Scenario 1) or a full trade liberalisation policy reform (i.e. Step 1.2/Scenario 2) on bilateral trade between SACU and the USA, from the perspective of both parties. This assisted as a basis of substantiating the significance of SACU and the USA to consider initiating the negotiation of the potential SACU-USA reciprocal trade agreement. In other words, the purpose of Step 1 was to give a macro-level context to the implications of AGOA expiring with no alternative SACU-USA reciprocal trade agreement in place *versus* a potential fully liberalised reciprocal trade agreement between SACU and the USA. Steps 2.1 to 4.2 served as the product-level selection criteria used to identify, beforehand, the products and sectors that SACU and the USA should prioritise in the negotiations of the potential trade agreement.

Sustained export opportunities that possess low market concentration and tariff-wise market access were of particular interest in this study. However, those sustained export opportunities that possessed low market concentration and a high tariff-wise market access were assessed, in terms of NTMs, for qualification as additional priority products. In this regard, AVEs of NTMs of such export opportunities were used as a basis of selection. The data of AVEs of NTMs utilised in this study is based on the approximation method developed in Kee and Nicita (2017), which sequentially, builds on the seminal work of Kee *et al.* (2009).

The results of the welfare, macroeconomic and sectoral context to the potential SACU-USA trade negotiations were presented and analysed in Chapter 5.

7.2.4 Chapter 5: GTAP analysis results

The analysis in Chapter 5 gave a macro-level context to the implications of AGOA expiring with no alternative SACU-USA reciprocal trade agreement in place *versus* a potential fully liberalised

reciprocal trade agreement between SACU and the USA. The welfare decomposition function of the GTAP model was used to quantify the Equivalent Variation (EV) welfare effects of the possible increase in USA tariffs applied on SACU should USA tariffs revert to MFN levels if AGOA is not renewed after it expires in 2025 (see Section 5.2.1). The simulated results showed that SACU would suffer an estimated net welfare loss of US\$540.74 million, while the USA achieves a net welfare gain of US\$67.40 million.

The net welfare loss of SACU originated mainly from the deterioration in its endowment effect (-US\$234.08), Terms of Trade (TOT) effect (-US\$156.90) and the allocative efficiency effect (-US\$147.97 million). Most of the net welfare gain of the USA is expected to originate from its TOT effect (US\$47.54 million) and its TOT in investment and savings (US\$23.06 million). While the net welfare of Middle-East, Rest of World and Oceania is estimated to deteriorate, all the other regions achieves minimal welfare gains together with the USA (see Table 5.1). At global level, the welfare losses from the possible USA tariff increase outweigh the welfare gains resulting in a net welfare loss of US\$336.96 million.

The welfare decomposition function of the GTAP model was also used to quantify the EV welfare effects that are associated with the changes in trade quantities under the full SACU-USA trade liberalisation policy reform scenario (see Section 5.3.1). The simulated results revealed that both SACU and the USA would achieve welfare gains due to the formation of the fully liberalised SACU-USA reciprocal trade agreement. The major contributor to the welfare gains of SACU is the endowment effect (US\$306.36 million) and the allocative efficiency effect (US\$96.96 million). In the case of the USA, its welfare gains emanate mostly from the TOT (US\$536.27 million) effect and the TOT in investment and savings (US\$114.00 million).

The magnitude of the welfare gains emanating from the full trade liberalisation policy reform scenario is much larger for the USA (US\$676.84 million) in comparison to SACU's US\$296.26 (see Table 5.8). All the other regions are expected to suffer welfare losses with the European Union (-US\$216.89 million) and China (-US\$165.83 million) emerging as the biggest losers. However, the magnitudes of the welfare gain of SACU and the USA are larger than the welfare losses of all the other regions, thereby making the global economy better-off as a result of the formation of the potential reciprocal trade agreement.

In terms of macroeconomic and sectoral effects of the possible USA tariff increase, due to the expiry of AGOA simulated under Scenario 1, the GTAP simulation results were mostly unfavourable for SACU (see Sections 5.2.2 and 5.2.3). For instance, the real GDP of SACU is

expected to deteriorate. In addition, diversion of exports from the USA to other regions was also revealed in the case of SACU, while the USA also diverts its imports from SACU to other regions.

Unlike the possible USA tariff increase simulated in Scenario 1, the GTAP simulations of the estimated macroeconomic and sectoral effects of the potential fully liberalised SACU-USA reciprocal trade agreement, simulated under Scenario 2, are mostly favourable for both SACU and the USA (see Sections 5.3.2 and 5.3.3). For instance, bilateral traded quantities between SACU and the USA are estimated to increase in all sectors. Furthermore, the formation of the potential SACU-USA reciprocal trade agreement is expected to be net trade creating for both SACU and the USA in all the sectors. For the USA, in particular, its imports from all the other regions improve in all the sectors as an outcome of the potential trade deal.

The overall negative effects, revealed in Scenario 1, coupled with the overall positive effects, revealed in Scenario 2, indicated that it is beneficial for SACU to engage the USA in pro-active trade negotiations due to the uncertainty surrounding the renewal of AGOA. As mentioned, the purpose of the GTAP analysis performed in Steps 1.1 and 1.2 was to give a macro-level context to the implications of AGOA expiring with no alternative SACU-USA reciprocal trade agreement in place *versus* a potential fully liberalised reciprocal trade agreement between SACU and the USA. Therefore, the results of the GTAP model simulations in Chapter 5 motivated the significance for pro-active negotiations between SACU and the USA within the context of the uncertainty surrounding the expiry of AGOA. In this regard, products and sectors that SACU and the USA should prioritise in the potential bilateral trade negotiations were identified in Chapter 6, using the product-level prioritisation method developed in this study.

7.2.5 Chapter 6: Results of priority products and sectors

In Section 6.2.1, consistently large and/or growing import demand in the USA and SACU was identified in Step 2.1 for all products at HS6-digit level. Of the 4 952 products imported by the USA, 3 619 were identified with consistently large and/or growing import demand over the five-year period from 2013 to 2017 (see Table 6.1). On the other hand, of the 5 199 products collectively imported by SACU countries, a total of 1 892 were identified with consistently large and/or growing import demand over the five-year period under analysis. As revealed in Table 6.1, the majority of the products were identified in Namibia, South Africa, and Botswana, respectively.

When classified in terms of the Broad Economic Categories (BEC), the majority of the products identified with consistently large and/or growing import demand, from 2013 to 2017, in both the USA and SACU markets are consumer goods and intermediate goods (see Figure 6.1). This

suggests that these markets can sustain imports of more value added products utilised in the production of other goods and for consumption purposes.

On the supply-side, products that the USA and SACU consistently export competitively (i.e. sustainable exports) were identified in Step 2.2 (see Section 6.2.2). Of the 4 959 products exported by the USA to all its trading partners globally, a total of 1 197 products fulfilled the selection criteria; that is $RCA \geq 1$ and $RTA > 0$, in all the five years from 2013 to 2017 (see Table 6.2). For SACU, 1 391 of the 5 112 products collectively exported by the member countries to all their trading partners around the world fulfilled the selection criteria (i.e. $RCA > 0.7$ and $RTA > 0$) in all the five years from 2013 to 2017. When classified in terms of BEC, the results reveal that the USA and SACU enjoy more product-level export production sustainability in the intermediate and consumer goods categories, respectively (see Figure 6.2).

In Section 6.2.3, products identified with consistently large and/or growing import demand in the USA (3 619) and SACU (1 892) were matched to SACU's (1 391) and USA's (1 197) consistently competitive export supply, in Step 3. A total of 1 060 matched products (i.e. sustained export opportunities) were identified in the USA market over the five-year period from 2013 to 2017 (see Table 6.3). In the SACU market, a total of 539 sustained export opportunities were identified over the same period (see Table 6.4). Most of these sustained export opportunities were identified in South Africa, Namibia and Botswana. In terms of BEC classification, the majority of the sustained export opportunities identified in the USA and SACU markets were in the consumer and the intermediate goods categories, respectively (see Figure 6.3).

The degree of market concentration in the USA and SACU import markets was assessed in Step 4.1 (see Section 6.2.4). Of the 1 060 matched products identified in the USA market in Step 3, a total of 819 had low market concentration over the period 2013 to 2017 (see Table 6.5). In the SACU market, 496 of the 686 sustained export opportunities for the USA identified in Step 3, were characterised by low market concentration. The majority of the sustained export opportunities with low market concentration were identified in South Africa, Namibia and Botswana.

In Section 6.2.5, the degree of tariff-wise market access in the USA and SACU, for the sustained export opportunities identified in Step 3, was assessed in Step 4.2. In the USA market, a total of 526 of the 1 060 matched products identified in Step 3, over the five-year period from 2013 to 2017, were characterised by low tariff-wise market access. In the case of SACU, 162 of the 539 matched products identified in Step 3, over the five-year period from 2013 to 2017, were characterised by low tariff-wise market access (see Table 6.6). The sustained export opportunities characterised by low tariff-wise market access in both the USA and SACU market entail that the USA and SACU

markets are not easily accessible to SACU and the USA exporters seeking to exploit such sustained export opportunities.

In conclusion, those sustained export opportunities characterised by both low market concentration (in Step 4.1) and low tariff-wise market access (in Step 4.2) in the SACU and USA markets were selected to inform potential bilateral trade negotiations between SACU and the USA (see Section 6.3). In this regard, 407 products identified with both low tariff-wise market access and concentration in the USA market were selected as the products that SACU should prioritise in the negotiations. Likewise, 161 products identified with both low tariff-wise market access and concentration in the SACU market were selected as the products that the USA should prioritise in the negotiations of the same potential trade deal.

The majority of products that SACU should prioritise for trade negotiations with the USA falls within the following sectors (see Figure 6.4): textiles and clothing (80 priority products); machinery and electrical (60); chemicals and allied industries (58); metals (57); and food products (34). Similarly, with the exception of plastic or rubber sector with 27 priority products, the priority sectors for the USA in the SACU market are: machinery and electrical (21); textiles and clothing (20); chemicals and allied industries (19); and metals (19). These sectors were also consistent with the GTAP simulation results presented and analysed in Step 1.2 (see Section 5.3). For example, the textiles and clothing sector, which comprises many of the priority products that the USA should prioritise in the potential trade negotiations, is also expected to significantly improve in terms of sectoral effects under the full trade liberalisation policy reform scenario (see Section 5.3.3).

In the case of the USA, sustained export opportunities that possessed high tariff-wise market access were assessed in terms of NTMs as additional priority products for SACU, based on AVEs of NTMs (see Section 6.4). In this regard, 99 matched products that were identified with both AVEs of $NTM > 0\%$ and $HHI < 0.5$ constituted additional products that SACU can prioritise for negotiation, in terms of NTMs. The majority of the additional priority products for SACU falls under the following sectors: chemicals and allied industries (23 additional priority products); food products (17); vegetables and vegetable products (16); animal and animal products (9); textiles and clothing (9); and metals (7). In terms of BEC classification, most of the additional priority products for SACU identified in the USA, based on NTMs, are consumer goods (see Figure 6.7).

The following section provides the contribution of this study.

7.3 Contribution of this study

The contribution of this study is twofold and separated into literature and policy contribution.

- Literature contribution

Enhancing trade negotiation literature by developing a product-level prioritisation method, which assists in enhancing developing countries negotiation and trade policy analysis capacity through informing the preparation phase of bilateral trade negotiations (see Chapter 4). The product-level prioritisation method, developed in this study and suggested for implementation into the preparation phase of the bilateral trade negotiation process, combines selected parts of three research methodologies, namely the GTAP model of Hertel (1997), the DSM of Cuyvers *et al.* (1995) and Cuyvers and Viviers (2012), and the MAI of the ITC (2008).

- Policy contribution

Informing the potential SACU-USA trade negotiations, through the application of the product-level prioritisation method developed in this study, in the context of the uncertainty surrounding the renewal of AGOA after it expires in 2025 (see Chapters 5 and 6). In addition to enhancing the fairness of the trade deal by inspiring a win-win negotiation outcome, identification of priority products and sectors is extremely significant, especially, within the context of SACU countries that may lack the trade policy analysis capacity to better prepare for trade negotiations.

Recommendations to SACU member countries and the USA policymakers as well as the limitations of this study and recommendations for future research are provided in Section 7.4.

7.4 Recommendations

7.4.1 Recommendations to policymakers

There is uncertainty surrounding the renewal of AGOA after the Trade Act expires in 2025. Considering the importance of exports in SACU countries' economic growth prospects and the significance of the USA market in their export accomplishments, policymakers of respective SACU member countries are recommended to be pro-active and engage the USA in negotiation of a reciprocal trade agreement. The agreement should build on AGOA by strengthening trade and investment relations, while addressing AGOA drawbacks and taking reciprocity into account (Prinsloo & Ncube, 2016). Even though attempts to negotiate the SACU-USA FTA between 2003 and 2007 failed, the global economic and political environment has changed since then. Hence, SACU can again engage the USA in negotiation of a reciprocal BTA.

The negotiations on the scope of the product coverage of the potential SACU-USA reciprocal trade agreement should not be exclusively limited to the products and sectors identified in this study.

However, policymakers of the respective SACU Member States and the USA are recommended to prioritise the identified products and sectors, as this will enhance the fairness and the sustainability of the trade relationship. The notion of fairness of trade deals has been a major concern in recent years. Consequently, re-negotiations of major trade deals such as the North America Free Trade Agreement (NAFTA) have been witnessed. Therefore, both the USA and SACU have to benefit from the potential reciprocal trade agreement. This can be partially achieved by the inclusion, as part of the trade deal, of products and sectors with all of the following attributes: consistently large and/or growing import demand in the USA and SACU markets; consistently competitively exported by the USA and SACU; and possessing low market concentration and tariff-wise market access in the USA and SACU markets.

To illustrate the level of detail of the results, examples of products with the abovementioned attributes, randomly selected from the top five HS2-digit level chapters, that the USA should prioritise in the potential SACU-USA trade negotiations (see Table 6.8 in Section 6.3) include:

- Vulcanised rubber conveyor belts or belting;
- Iron and steel containers for compressed or liquefied gas;
- Diesel or semi-diesel engine generating sets, with compression ignition internal combustion piston engine, of an output ≤ 75 kVA;
- New rubber pneumatic tyres of a kind used on construction or industrial handling vehicles and machines and having a rim size > 61 cm;
- Laboratory, hygienic or pharmaceutical glassware, whether or not graduated or calibrated
- Mowers for lawns, parks or sports grounds;
- Butadiene rubber in primary forms or in plates, sheets or strip; and
- Plates, sheets and strip of non-cellular rubber

Similarly, examples of products that SACU should prioritise in the potential bilateral trade negotiation with the USA (see Table 6.9 in Section 6.3) include:

- Parts of steam or other vapour generating boilers;
- Marine propulsion engines;
- Rigid tubes, pipes and hoses, of polymers of ethylene;
- Electric filament lamps, excluding ultra-violet or infra-red;
- Ignition wiring sets and other wiring sets of a kind used in vehicles, aircraft or ships;
- Sodium triphosphate;
- Polyisobutylene; and
- Electro-thermic appliances

A more general final recommendation is that the product-level prioritisation method developed in this study can be programmed with a user-friendly interface. This can assist developing countries that may experience insufficient analytical capacity in preparing for trade negotiations.

The following section provides the limitations encountered in this study and recommendations for future research.

7.4.2 Limitations of the study and recommendations for future research

In identifying the products and sectors that SACU and the USA should prioritise in the negotiation of the potential SACU-USA reciprocal trade agreement, the following limitations were encountered:

- In the case of Lesotho, Eswatini and Botswana, HS 2002 Revision direct import and export data at HS6-digit level is not available for some of the years between 2006 and 2017. In such circumstances, mirror import data had to be relied on despite direct import data being more desirable.
- The data analysis in this study revealed inadequate consistently large and/or growing import demand in SACU over the five-year period under analysis (i.e. from 2013 to 2017). This led, in the case of only SACU, to the relaxation of the selection criteria in Step 2.1. Therefore, instead of only selecting product-country combinations that fulfilled the stringent selection criteria in this step, those product-country combinations that possessed consistently large and/or growing import demand in at least three of the five years under analysis, with at least one of the years being in the last two years (i.e. 2016 and/or 2017), were also selected and qualified for matching in Step 3.
- In Step 4.1, SACU's main economy, South Africa, concentrated the import markets of other SACU Member States with the level of concentration reaching over 95% in the smaller SACU economies of Lesotho and Eswatini. The data analysis revealed that South Africa's RTA is less than zero in some of the HS6-digit level products that South Africa concentrates in these markets. This might indicate that South Africa's exports within SACU may possibly be recorded as exports, while in reality, they are re-exports. Hence, such products with a high concentration caused by South Africa in the other SACU countries (i.e. $HHI \geq 0.5$), while South Africa is a net-importer of the products (i.e. $RTA < 0$) were included as part of sustainable export opportunities for the USA in SACU, which qualified for further analysis in Step 3.2.

- The WB (2018b) AVEs of NTMs database covers only 40 importing countries, including the USA and the EU countries. However, all SACU members are not included in the importing countries covered in the database. As a consequence of this data limitation, only those export opportunities for SACU in the USA possessing high tariff-wise market access could be assessed as additional priority products for SACU, based on NTMs.

Considering the limitations above, future research efforts can firstly be channelled towards investigating the accuracy of SACU trade data by gathering the customs data of the specific SACU member countries. Secondly, with regard to the consistency of large and/or growing import demand in SACU, future research can also be undertaken to ascertain the causes of lack of consistence in the size and growth of the SACU import market. Thirdly, the reasons and merits of such a high level of concentration of import markets of other SACU Member States by South Africa calls for further analysis in future research endeavours. Lastly, future research can embed the non-tariff component of market access into the market access assessment step of the product-level prioritisation method developed in this study, prior to applications of the research method.

7.5 Final concluding remarks

The trade negotiation and trade agreement landscape is evolving, shifting from multilateral focus to bilateralism and/or regionalism. In fact, most of the new trade negotiations as well as trade agreements notified to the WTO are bilateral in nature. However, in the preparation phase of the bilateral trade negotiation process, the evidence on product-level prioritisation methods, specifically designed to inform trade negotiations by considering both countries' core export competences and the size, growth and consistency of the import demand, is silent.

Therefore, this study develops a product-level prioritisation method that can be used to identify products and sectors that should be prioritised in the negotiation of BTAs. This assists in enhancing developing countries negotiation and trade policy analysis capacity through informing the preparation phase of bilateral trade negotiations. The prioritisation method is applied in the case of SACU and the USA to inform the potential SACU-USA trade negotiations in the context of the uncertainty surrounding the renewal of AGOA after it expires in 2025.

Product-level prioritisation is crucial, not only in addressing capacity constraints that some developing countries may face, but also in contributing to fair, inclusive and sustained trade agreements with greater implementation support.

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APPENDIX A

Table A.1: Item one to three of Article 31 of the 2002 SACU Agreement

Article	Item	Description
Article 31	1	Member States may maintain preferential trade and other related arrangements existing at the time of entry into force of this Agreement.
	2	Member States shall establish a common negotiating mechanism in accordance with the terms of reference to be determined by the Council in accordance with paragraphs 2 and 7 of Article 8 for the purpose of undertaking negotiations with third parties.
	3	No Member State shall negotiate and enter into new preferential trade agreements with third parties or amend existing agreements without the consent of other Member States.

Source: Author's own table based on SACU (2002)

APPENDIX B

Table B.1: Scenario 1 base and updated import tax rates applied by the USA on SACU (%)

	Base Tax Rate		Updated Tax Rate	
	<i>rTMS</i>		<i>rTMS</i>	
Grains and crops	0.00		3.30	
Livestock and meat products	0.98		1.90	
Mining and extraction	0.00		0.29	
Processed food	3.60		4.70	
Textiles and clothing	0.33		9.00	
Light manufacturing	0.00		2.40	
Heavy manufacturing	0.09		2.20	
Utilities and construction	0.00		0.00	
Transport and communication	0.00		0.00	
Other services	0.00		0.00	

Source: Author's own table

Table B.2: Intra-SACU-USA base and updated GTAP tax rates (%)

	Base Tax Rates				Updated Tax Rates			
	<i>rTXS</i>		<i>rTMS</i>		<i>rTXS</i>		<i>rTMS</i>	
	SACU	USA	SACU	USA	SACU	USA	SACU	USA
Grains and crops	-0.01	-0.01	1.35	0.00	0.00	0.00	0.00	0.00
Livestock and meat products	-0.66	0.00	3.01	0.98	0.00	0.00	0.00	0.00
Mining and extraction	-1.19	-0.04	0.03	0.00	0.00	0.00	0.00	0.00
Processed food	0.00	0.00	5.63	3.60	0.00	0.00	0.00	0.00
Textiles and clothing	-3.33	-0.08	28.42	0.33	0.00	0.00	0.00	0.00
Light manufacturing	-2.13	-0.32	9.17	0.00	0.00	0.00	0.00	0.00
Heavy manufacturing	-1.05	-0.56	2.48	0.09	0.00	0.00	0.00	0.00
Utilities and construction	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Transport and communication	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other services	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Source: Author's own table

APPENDIX C

Table C.1: Types of products that the USA should prioritise in the negotiation of SACU-USA BTA, based on tariffs

Chapter code and description	Number of products
39 – Plastics and articles thereof	18
84 – Nuclear reactors, boilers, machinery and mechanical appliances, and parts thereof	14
40 – Rubber and articles thereof	09
73 – Articles of iron or steel	08
70 – Glass and glassware	07
85 – Electrical machinery and equipment and parts thereof, sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	07
33 – Essential oils and resinoids, perfumery, cosmetic or toilet preparations	06
56 – Wadding, felt and nonwovens; special yarns; and twine, cordage, ropes and cables and articles thereof	06
12 – Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; and straw and fodder	05
21 – Miscellaneous edible preparations	04
23 – Residues and waste from the food industries, and prepared animal fodder	04
52 – Cotton	04
87 – Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	04
15 – Animal or vegetable fats and oils and their cleavage products; prepared edible fats; and animal or vegetable waxes	03
20 – Preparations of vegetables, fruit, nuts, or other parts of plants	03
27 – Mineral fuels, mineral oils and products of their distillation; bituminous substances; and mineral waxes	03
28 – Inorganic chemicals and organic or inorganic compounds of precious metals of rare earth metals, of radioactive elements, or of isotopes	03
32 – Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring matter; paints and varnishes; putty and other mastics; and ink	03
38 – Miscellaneous chemical products	03
48 – Paper and paperboard: articles of paper pulp, of paper or of paperboard	03
54 – Man-made filaments, strip and the like of man-made textile materials	03
72 – Iron and steel	03
82 – Tools, implements, cutlery, spoons and forks of base metal, and parts thereof of base metal	03
07 – Edible vegetables and certain roots and tubers	02
19 – Preparations of cereals, flour, starch or milk, and pastry cooks' products	02
34 – Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles	02
55 – Man-made staple fibres	02
59 – Impregnated, coated, covered or laminated textile fabrics; and textile articles of a kind suitable for industrial use	02

Table C.1: Types of products that the USA should prioritise in the negotiation of SACU-USA BTA, based on tariffs (continued)

Chapter code and description	Number of products
68 – Articles of stone, plaster, cement, asbestos, mica or similar materials	02
74 – Copper and articles thereof	02
83 – Miscellaneous articles of base metal	02
90 – Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus, and parts and accessories thereof	02
96 – Miscellaneous manufactured articles	02
02 – Meat and edible meat offal	01
04 – Dairy produce, birds' eggs, natural honey, and edible products of animal origin, not elsewhere specified	01
08 – Edible fruit and nuts, and peel of citrus fruit or melons	01
10 – Cereals	01
11 – Products of the milling industry, malt, starches, inulin, and wheat gluten	01
30 – Pharmaceutical products	01
37 – Photographic or cinematographic goods	01
41 – Raw hides and skins (other than furskins) and leather	01
58 – Special woven fabrics, tufted textile fabrics, lace, tapestries, trimmings, and embroidery	01
60 – Knitted or crocheted fabrics	01
63 – Other made-up textile articles; sets; worn clothing and worn textile articles; and rags	01
69 – Ceramic products	01
71 – Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; and coin.	01
76 – Aluminium and articles thereof	01
86 – Railway or tramway locomotives, rolling-stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (incl. electro-mechanical) traffic signalling equipment of all kinds	01
94 – Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; and illuminated signs, illuminated nameplates and the like	01

Source: Author's own table

Table C.2: Types of products that SACU should prioritise in the negotiation of SACU-USA BTA, based on tariffs

Chapter code and description	Number of products
85 – Electrical machinery and equipment and parts thereof, sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	35
84 – Nuclear reactors, boilers, machinery and mechanical appliances, and parts thereof	25
39 – Plastics and articles thereof	22
61 – Articles of apparel and clothing accessories, knitted or crocheted	18
62 – Articles of apparel and clothing accessories, not knitted or crocheted	17
73 – Articles of iron or steel	16
28 – Inorganic chemicals and organic or inorganic compounds of precious metals of rare earth metals, of radioactive elements, or of isotopes	15
29 – Organic chemicals	13
82 – Tools, implements, cutlery, spoons and forks of base metal, and parts thereof of base metal	13
32 – Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring matter; paints and varnishes; putty and other mastics; and ink	11
40 – Rubber and articles thereof	10
58 – Special woven fabrics, tufted textile fabrics, lace, tapestries, trimmings, and embroidery	09
87 – Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	09
20 – Preparations of vegetables, fruit, nuts, or other parts of plants	08
21 – Miscellaneous edible preparations	08
33 – Essential oils and resinoids, perfumery, cosmetic or toilet preparations	08
63 – Other made-up textile articles; sets; worn clothing and worn textile articles; and rags	08
64 – Footwear, gaiters and the like; and parts of such articles	08
70 – Glass and glassware	08
19 – Preparations of cereals, flour, starch or milk, and pastry cooks' products	07
74 – Copper and articles thereof	07
83 – Miscellaneous articles of base metal	07
52 – Cotton	06
76 – Aluminium and articles thereof	06
96 – Miscellaneous manufactured articles.	06
16 – Preparations of meat of fish or of crustaceans, molluscs or other aquatic invertebrates	05
42 – Articles of: leather; saddlery and harness; travel goods, handbags and similar containers; and animal gut (other than silk-worm gut)	05
59 – Impregnated, coated, covered or laminated textile fabrics; and textile articles of a kind suitable for industrial use	05
72 – Iron and steel	05
90 – Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus, and parts and accessories thereof	05
08 – Edible fruit and nuts, and peel of citrus fruit or melons	04

Table C.2: Types of products that SACU should prioritise in the negotiation of SACU-USA BTA, based on tariffs (continued)

Chapter code and description	Number of products
34 – Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles	04
54 – Man-made filaments, strip and the like, of man-made textile materials	04
56 – Wadding, felt and nonwovens; special yarns; and twine, cordage, ropes and cables and articles thereof	04
02 – Meat and edible meat offal	03
09 – Coffee, tea, maté and spices	03
38 – Miscellaneous chemical products	03
41 – Raw hides and skins (other than furskins) and leather	03
55 – Man-made staple fibres	03
57 – Carpets and other textile floor coverings	03
68 – Articles of stone, plaster, cement, asbestos, mica or similar materials	03
69 – Ceramic products	03
94 – Furniture: bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; and illuminated signs, illuminated nameplates and the like.	03
03 – Fish and crustaceans, molluscs, and other aquatic invertebrates	02
04 – Dairy produce, birds' eggs, natural honey, and edible products of animal origin, not elsewhere specified	02
07 – Edible vegetables and certain roots and tubers	02
11 – Products of the milling industry, malt, starches, inulin, and wheat gluten	02
13 – Lac; gums, resins and other vegetable saps and extracts	02
15 – Animal or vegetable fats and oils and their cleavage products; prepared edible fats; and animal or vegetable waxes	02
17 – Sugars and sugar confectionery	02
24 – Tobacco and manufactured tobacco substitutes	02
37 – Photographic or cinematographic goods	02
60 – Knitted or crocheted fabrics	02
81 – Other base metals, cermets, and articles thereof	02
89 – Ships, boats and floating structures	02
01 – Live animals	01
12 – Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; and straw and fodder	01
14 – Vegetable plaiting materials and vegetable products, not elsewhere specified or included	01
18 – Cocoa and cocoa preparations	01
23 – Residues and waste from the food industries, and prepared animal fodder	01
25 – Salt, sulphur, earths and stone, and plastering materials (lime and cement)	01
27 – Mineral fuels, mineral oils and products of their distillation; bituminous substances; and mineral waxes	01

Table C.2: Types of products that SACU should prioritise in the negotiation of SACU-USA BTA, based on tariffs (continued)

Chapter code and description	Number of products
35 – Albuminoidal substances, modified starches, glues, and enzymes	01
36 – Explosives, pyrotechnic products, matches, pyrophoric alloys, and certain combustible preparations	01
43 – Furskins, artificial fur, and manufactures thereof	01
51 – Wool, fine or coarse animal hair; horsehair yarn and woven fabric	01
66 – Umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof	01
71 – Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; and coin	01
79 – Zinc and articles thereof	01
95 – Toys, games and sports requisites; parts and accessories thereof	01

Source: Author's own table

Table C.3: Types of additional products that SACU should prioritise in the negotiation of SACU-USA BTA, based on NTMs

Chapter code and description	Number of products
33 – Essential oils and resinoids, perfumery, cosmetic or toilet preparations	08
20 – Preparations of vegetables, fruit, nuts, or other parts of plants	06
30 – Pharmaceutical products	06
03 – Fish and crustaceans, molluscs, and other aquatic invertebrates	05
34 – Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles	05
08 – Edible fruit and nuts, and peel of citrus fruit or melons	04
11 – Products of the milling industry, malt, starches, inulin, and wheat gluten	04
21 – Miscellaneous edible preparations	03
22 – Beverages, spirits and vinegar	03
23 – Residues and waste from the food industries, and prepared animal fodder	03
25 – Salt, sulphur, earths and stone, and plastering materials (lime and cement)	03
73 – Articles of iron or steel.	03
01 – Live animals	02
07 – Edible vegetables and certain roots and tubers	02
09 – Coffee, tea, maté and spices	02
12 – Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; and straw and fodder	02
27 – Mineral fuels, mineral oils and products of their distillation; bituminous substances; and mineral waxes	02
31 – Fertilizers	02
57 – Carpets and other textile floor coverings	02
61 – Articles of apparel and clothing accessories, knitted or crocheted	02
63 – Other made-up textile articles; sets; worn clothing and worn textile articles; and rags	02
71 – Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; and coin	02
75 – Nickel and articles thereof	02
84 – Nuclear reactors, boilers, machinery and mechanical appliances, and parts thereof	02
90 – Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus, and parts and accessories thereof	02
94 – Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; and illuminated signs, illuminated nameplates and the like	02
02 – Meat and edible meat offal	01
05 – Animal originated products, not elsewhere specified or included	01
13 – Lac; gums, resins and other vegetable saps and extracts	01
15 – Animal or vegetable fats and oils and their cleavage products; prepared edible fats; and animal or vegetable waxes	01

Table C.3: Types of additional products that SACU should prioritise in the negotiation of SACU-USA BTA, based on NTMs (continued)

Chapter code and description	Number of products
18 – Cocoa and cocoa preparations	01
19 – Preparations of cereals, flour, starch or milk, and pastry cooks' products	01
28 – Inorganic chemicals and organic or inorganic compounds of precious metals of rare earth metals, of radioactive elements, or of isotopes	01
36 – Explosives, pyrotechnic products, matches, pyrophoric alloys, and certain combustible preparations	01
40 – Rubber and articles thereof	01
56 – Wadding, felt and nonwovens; special yarns; and twine, cordage, ropes and cables and articles thereof	01
58 – Special woven fabrics, tufted textile fabrics, lace, tapestries, trimmings, and embroidery	01
62 – Articles of apparel and clothing accessories, not knitted or crocheted	01
68 – Articles of stone, plaster, cement, asbestos, mica or similar materials	01
69 – Ceramic products	01
72 – Iron and steel	01
83 – Miscellaneous articles of base metal	01
85 – Electrical machinery and equipment and parts thereof, sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	01
87 – Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	01

Source: Author's own table