12

Competitive Liberalization and a US-SACU FTA

J. CLARK LEITH AND JOHN WHALLEY

The conference that gave rise to this volume was devoted to the analysis of actual and potential regional trade initiatives proposed by the United States over the past year or so for various parts of the world. The broad rubric for this set of initiatives is "competitive liberalization," the idea that a sequence of barrier-reducing preferential initiatives undertaken by the United States and the European Union in competition one with another for smaller regional markets can serve to spur global trade growth and also sow the seeds for a successful conclusion to the World Trade Organization (WTO) Doha Round in 2007 by partially reducing some barriers first (see C. Fred Bergsten, "A Competitive Approach to Free Trade," *Financial Times,* December 4, 2002; and Zoellick 2002). These latest bilaterals stand in contrast to preferential trade arrangements in the 1980s and 1990s such as the Canada-US Trade Agreement and the North American Free Trade Agreement (NAFTA), which were typically initiated by the smaller parties seeking security of access (or insurance, to paraphrase Perroni and Whalley 2000). A counterargument to claims for the likely success of this new competitive thrust in moving multilateral liberalization forward is that by establishing margins of preference in large markets for midsized entities, coalitions of groups of countries that would otherwise

J. Clark Leith is professor of economics at the University of Western Ontario. John Whalley is director of the Centre for the Study of International Economics Research (CSIER) at the University of Western Ontario, professor of economics at the University of Warwick, and coauthor of The Trading System after the Uruguay Round *(Washington: Institute for International Economics, 1996).*

lose margins of preference may be created in opposition to new multilateral liberalization. There is no theoretical reason why competitive liberalization will achieve its stated aim—but, on the other hand, it might. The proof of the pudding, in our view, will be in the eating.

Here we discuss a possible US bilateral arrangement with the Southern African Customs Union (SACU), which consists of South Africa, Botswana, Lesotho, Namibia, and Swaziland, assessing both its potential contribution to the overall US strategy and the impacts on SACU countries. Thus far, in addition to NAFTA, four US agreements have been concluded: with Israel (1985), Jordan (2001), Chile (2003), and Singapore (2003). Several others seem slated to follow, with partners including Morocco, Australia, ASEAN (the Association of Southeast Asian Nations), and Central America. We assume that the United States has consciously decided to negotiate with the whole of SACU rather than only with South Africa. The Europeans, in contrast, have two separate agreements—one with South Africa and the other with the African, Caribbean, and Pacific (ACP) countries under the Cotonou Agreement, which includes the smaller SACU members: Botswana, Lesotho, Namibia, and Swaziland (BLNS). It is important to note that SACU is for now only a customs union; it does not cover key noncommodity trade issues such as services, investment, intellectual property, and other areas. If these are substantively included in a US agreement (they are effectively not, save competition policy, in the earlier EU–South Africa agreement), there will need to be a prior internal SACU negotiation. Also, constraints on government capacity to participate are a major factor because expertise is limited and because several SACU members must address other urgent policy issues. Whether the United States should also seek wider humanitarian goals when negotiating (such as by offering a waiver of drug patent rights for treatment of AIDS) is yet another issue.

We assume, for now, that a US-SACU agreement would likely follow the broad contours of the recently signed Singapore and Chile agreements (although in practice there will of course be differences). These are NAFTA-esque in incorporating duty-free trade in goods (following transitional arrangements), with extremely complex NAFTA-like rules of origin in textiles and apparel, autos, and many other areas, as well as related provisions covering intellectual property, investment protection, temporary entry of businesspersons, and bilateral dispute settlement. The agreements go well beyond NAFTA in the coverage of services, as well as competition policy.

We suggest that SACU's interest, while that of five countries collectively, will likely be dominated by the interests of its most powerful member, South Africa. These interests are multifaceted. South African trade policy was for many years highly protectionist, in part because of anti-apartheid sanctions, and focused on trade with small, local hinterland market economies with transportation routes through South Africa. This

Table 12.1 South African trade with selected regions, 2000 (percentage shares)

Region	Exports	Imports
Asia	18.7	24.6
European Union	34.2	39.8
NAFTA	12.5	12.9
SADC	10.0	1.4

NAFTA = North American Free Trade Agreement
SADC = Southern African Development Community

Source: Cassim et al. (2002, table 6.6).

policy focus has changed substantially in recent years with liberalization in South Africa, first under WTO negotiations (Uruguay Round), and later under the 1999 bilateral free trade agreement (FTA) between the European Union and South Africa. South Africa is already liberalizing.

As table 12.1 indicates, South African exports to the European Union and to Asia are considerably larger than to NAFTA, and exports to the region are also large. Trade with NAFTA is not the dominant South African interest it might seem from the outside. Also, given the high unemployment rates in South Africa, any trade agreement perceived to exacerbate this problem may face fierce and perhaps insurmountable domestic opposition.

In this chapter we make six points relating to the evaluation of such an arrangement's impacts and possible benefits to the two sides. First, the gains in terms of conventional trade policy lie in improved access for SACU to a large North American market; for the United States the SACU market is much less significant. The asymmetry in size is partially offset by a substantial (if now diminished) asymmetry in initial barriers, which are considerably higher in SACU. However, if multilateral elimination of nonagriculture tariffs in the WTO were to occur in 2015 as per the latest US proposal at the Doha Round, such benefits to SACU members would be temporary. A SACU–US FTA, coming on top of the South Africa–EU FTA, might also speed the reduction of SACU's most favored nation (MFN) trade barriers, better preparing the SACU producers for multilateral free trade in nonagricultural goods. But the reduction of trade barriers also means reduction of tariff revenue, an important consideration for some of the smaller SACU members that makes the development of alternative revenue sources (such as a value-added tax) all the more urgent. Potential complexities in rules of origin are another key issue.

Second, a potentially important benefit for SACU may be in access in the textiles and apparel sector that is free from quotas under the Multi-Fiber Arrangement, or MFA (and the trade regime that eventually replaces it). In recent years, apparel exports from SACU to the United States have grown rapidly, encouraged in part by the African Growth and Opportunity Act (AGOA) and some elements of the MFA phaseout, but some products still remain restrained by quotas. Potential benefits here may be significant for SACU, as well as for US fiber producers under the "yarn forward" rules of origin in textiles and apparel. Hence not only the possibility of multilateral tariff elimination but also the certainty of MFA elimination in 2005 enter.

Third, the implementation of an extensive agreement covering services, intellectual property, and competition policy poses special problems for SACU. SACU does not address these matters. The smaller countries are still in the process of developing updated competition policy statutes; intellectual property regimes are in process as well, designed for compliance with the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs); and financial institutions are regulated under national authorities in each SACU country. While these are all issues included in the Doha Round agenda, their possible inclusion in a likely more immediate bilateral arrangement with the United States may give rise to complexities and inconsistencies. Perhaps most important, if the US-Chile and US-Singapore arrangements are a guide, requested liberalization may well be highly asymmetric and in some areas (such as banking and insurance) involve larger (and even in some areas unilateral) concessions on the SACU side.

Fourth, the prior completion of a bilateral FTA between South Africa and the European Union in 1999 and the EU-ACP Cotonou agreement covering the smaller members of SACU are further factors involved in a US-SACU negotiation. The United States will want to restore its competitive position in SACU markets, giving SACU some negotiating room. The form and content of the two bilateral relationships—US-SACU and EU-SACU—will raise issues with their joint operation. The EU arrangements sidestep the most significant noncommodity trade issues likely to be raised by a US negotiation.

Fifth, the multicountry nature of SACU, combined with the fact that it covers only trade in goods, may cause problems. SACU will have to agree both on how to treat issues such as services, intellectual property, investment, temporary entry of businesspersons, and competition policy and on how to expand its coverage of these issues before it can negotiate bilaterally with the United States. This raises the issues of negotiating capacity and institutional infrastructure. SACU's relationship with the wider Southern African Development Community (SADC) grouping in the region, which contains 14 countries, as well as individual SACU members' bilateral arrangements with Zimbabwe, will also likely need some adjustments as a result.

Finally, although a US-SACU arrangement will focus on considerations of commercial policy, it clearly has wider implications for US foreign policy in the region in terms of humanitarian and developmental objectives. Even if the benefits of such an arrangement were to accrue more than proportionately to SACU (which, given the services situation, is by no means clear), it still fits within wider US aid and development objectives in Africa. These were the motives behind the recent US initiative for the Africa Growth and Opportunity Act. A bilateral US-SACU arrangement complements this undertaking, and promises somewhat more permanence than the time-limited and unilateral AGOA. But key developmental issues may almost certainly be raised in a bilateral negotiation: How will poverty in southern Africa be affected? What about the rights of companies holding the patents for AIDS drugs? How will growth be affected?

Thus, overall, while we see a bilateral US-SACU FTA as highly negotiable, especially if it is limited in its services and related provisions, it may offer SACU only temporary and relatively small benefits if US MFN tariffs are already low. In contrast, liberalization in noncommodity trade areas, and the associated regulatory reform within SACU members, may be more significant. The prior EU–South Africa arrangement provides added US incentives to pursue a bilateral agreement, but in its own way it also complicates things. Complexities arise with the overlapping regional arrangements already existing in the region, as well as with the entrance of foreign-policy issues and domestic SACU macro policy concerns. But both the reduction of barriers to goods trade and liberalization of other areas are likely to have the potential of promoting growth and reducing poverty in SACU. Such a thrust is also clearly in the foreign-policy interest of the United States.

What Is SACU?

The Southern African Customs Union is a grouping of five countries (Botswana, Lesotho, Namibia, South Africa, and Swaziland) that maintain a common external tariff to third countries. Most trade goes through South Africa, which dominates the grouping economically and accounts for a large majority of the region's GDP.

While the SACU arrangement dates from 1910, it has been renegotiated on various occasions, with the most substantial changes made in 1969 and 2002. The renegotiation completed in 2002 was initiated in November 1994, shortly after the launching of the Government of National Unity in South Africa. The five members of SACU are also all members of the 14-member Southern African Development Community, and several members of SACU have long-standing bilateral trade arrangements with other countries of the region. Furthermore, these arrangements are evolving independently of the proposed US-SACU free trade agreement. Also important to the background are the bilateral EU-South African trade and cooperation agreement of 1999 and the long-standing EU-ACP agreement that covers the smaller members of SACU, which we take up below.

The basic elements of SACU are a common external tariff, common excise duties, and a compensation (or revenue) distribution formula between members. The latest treaty both changed the compensation formula and introduced new governance and administration arrangements (Kirk and Stern 2003). The SACU compensation formula had previously transferred revenues to the smaller members on the basis of shares of the value of their imports from all sources (including elsewhere in SACU) plus their consumption of excisable goods. All the revenues from the common external tariff and the common excise duties on third-country imports were paid into the South African Treasury; and after payments made to the smaller members, South Africa retained the residual balance (Hudson 1981).[1] Before the implementation of the Uruguay Round tariff cuts, that arrangement undercompensated the smaller members relative to what they would have received had the tariff been directly applied to their third-country trade (Leith 1992), but in later years it may have overcompensated them for the net costs of the common external tariff. The new formula simply divides up the revenue collected from the common external tariff, on the basis of shares of intra-SACU trade.

In addition, the distribution of the common excise duties switched to a sharing on the basis of shares of GDP adjusted at the margin to favor the poorer members. The new formula means that any reduction in the customs pool due to lower average tariffs or duty-free access under the EU-SA and the proposed US-SACU bilateral arrangements will be of concern to those members that rely heavily on this revenue source—Lesotho and Swaziland, and to a lesser extent Namibia.

New SACU institutional arrangements under the latest treaty also create a secretariat to manage the affairs of SACU; a SACU tariff board to replace the South African Board of Tariffs and Trade, which previously set and adjusted the common external tariff; and an independent ad hoc tribunal to arbitrate disputes. These institutions are still being established. At the time of writing the head of the secretariat has yet to be named, and the process for amending the common external tariff has yet to be determined. A US-SACU agreement would thus be negotiated in a period when SACU itself is in institutional flux.

The new SACU agreement also raises for the first time the possibility of establishing common policies in a limited number of areas beyond tariffs and excise duties. There is a commitment to harmonize product and technical standards, and to apply product standards and technical regulations in accordance with the WTO. Members have agreed to develop common policies and strategies on industrial development. Regarding agricultural policies, members have agreed to cooperate with each other, with the aim

1. The old formula also amplified the share of imports plus excisable consumption to compensate the smaller members for the disadvantages that they faced, such as lack of fiscal discretion, and contained minimum and maximum provisions.

of ensuring coordinated development of agriculture. Each is committed to having a competition policy (but for most of the smaller members that remains to be achieved) and to cooperating in the enforcement of laws and regulations governing competition. Finally, members are committed to developing SACU-wide policies to address unfair trade practices between members. The new agreement does not set out the nature or details of these common policies. Much remains to be done, and the capacity among the smaller members for policy development on intra-SACU issues is severely limited, given other very pressing policy questions that they must address. All of this evolution will also complicate a US-SACU negotiation.

The Content of a Possible US-SACU Arrangement

Predicting the outcome of a bilateral trade negotiation is always difficult, but gaining a rough sense of what a US-SACU agreement could look like is clearly germane to any evaluation of both its impact and the interests of the parties to such an arrangement. Our assumption is that a US-SACU agreement would broadly follow the contours of the already-negotiated US-Singapore and US-Chile deals, since such an agreement would be seen from the US side as fitting into its broad strategy of "competitive liberalization."[2] As SACU is one of the more heavily protected significant markets around the world, from a US standpoint such an agreement would have the explicit objective of restoring the US market position in the southern African market, given the 1999 EU–South African Free Trade Agreement and the Cotonou Agreement (discussed below).

The assumption on the US side is that the United States would negotiate on its own and independently of its NAFTA partners. There is nothing in the structure of NAFTA that precludes such independence. We see the following elements as likely to be part of the package that could emerge.

Trade in Goods

We would anticipate that all duties between the United States and SACU would be removed on a bilateral basis. The majority of tariff line items (say 85 percent, as in the Chile agreement) would become duty-free upon signing. The remainder would be phased out over a 5- to 10-year implementation period.

2. Our interpretation of these agreements is based primarily on the US Trade Representative's summaries (2002a, 2002b) and the reports of the US Advisory Committee for Trade Policy and Negotiations (2003a, 2003b). The lengthy texts of the US-Chile and US-Singapore agreements are now publicly available. See the USTR Web site, www.ustr.gov.

Rules of origin, as in NAFTA, would most likely apply. These would likely be extremely complex and detailed. Not only would they involve a two-way test of significant transformation (perhaps 50 percent of manufacturing content) and a change in tariff nomenclature on reexport, but many detailed product and sectoral prisons would certainly apply. Paul Brenton (2003) points out that the Singapore-US agreement in draft form contains 240 pages of text on rules of origin with bewildering detail (see box 12.1). A SACU arrangement would almost certainly encounter similar problems, as such rules are used as trade exclusion devices. In the two critical areas of textiles and apparel and autos and auto parts, NAFTA rules of origin would likely apply. For the first, these would involve duty-free treatment only for apparel items made from US or SACU fibers, and US-SACU yarn and yarn processing (the so-called yarn forward rule). For the second area, where SACU exports have been growing rapidly in recent years, the 60 percent NAFTA local content rule for duty-free treatment would most likely apply.

In agriculture, if the Chile agreement sets a precedent, duty-free treatment will eventually arrive, but it will be phased in differentially across the two country groupings. In the US-Chile agreement, Chilean agricultural duties disappear after a 4-year period, while bilateral US duties disappear in 12 years. Bilateral export subsidies will likely be banned, and a bilateral agricultural safeguard mechanism (snapbacks) installed. The treatment of sugar will be of particular interest to Swaziland and the South African province of KwaZulu-Natal. If the agreement follows the pattern of that with Chile, the United States will insist on SACU's not replacing sweeteners exported to the United States with lower-priced imports from elsewhere. Similarly, wine may be a contentious issue.

For the United States, the opportunity is to gain improved market access to a much smaller but more heavily protected southern African market. For southern Africa, it is improved access to the large US market, with the added benefit of being quota-free in textiles and apparel if content rules are met, should whatever trade regime that takes effect post-MFA (beginning in 2005) continue to have some form of quotas.

Trade in Services

There has been a substantial amount of attention paid in the recent literature to the impact of liberalizing services in developing countries. From econometric work, Aaditya Mattoo, Randeep Rathindran, and Arvind Subramanian (2001) have claimed large growth effects in developing countries (1.5 percentage points a year) from certain forms of service trade liberalization. Using an FTAP (a version of the GTAP, or Global Trade Analysis Project) model, Philippa Dee and Kevin Hanslow (2000) have produced calculations that show very large gains as a percentage of

Box 12.1 Men's and boys' woolen overcoats: Rules of origin in proposed Singapore-US FTA

To quote Paul Brenton (2003, 29–31): "The rules of origin for clothing products in the proposed Singapore–US FTA provide an example of how complex the rules can become and how difficult they must be for producers to satisfy and prove compliance. The following example is for men's or boys' overcoats made of wool:

620111 A change to subheading 620111 from any other chapter, except from heading 5106 through 5113, 5204 through 5212, 5307 through 5308 or 5310 through 5311, Chapter 54 or heading 5508 through 5516, 5801 through 5802 or 6001 through 6006, provided that:

(a) the good is both cut and sewn or otherwise assembled in the territory of one or more of the Parties, and
(b) the visible lining fabric listed in Note 1 to Chapter 62 satisfies the tariff change requirements provided therein.

The requirements of Note 1 are that

Chapter Rule 1: Except for fabrics classified in 54082210, 54082311, 54082321, and 54082410, the fabrics identified in the following sub-headings and headings, when used as visible lining material in certain men's and women's suits, suit-type jackets, skirts, overcoats, carcoats, anoraks, windbreakers, and similar articles, must be formed from yarn and finished in the territory of a Party: 5111 through 5112, 520831 through 520859, 520931 through 520959, 521031 through 521059, 521131 through 521159, 521213 through 521215, 521223 through 521225, 540742 through 540744, 540752 through 540754, 540761, 540772 through 540774, 540782 through 540784, 540792 through 540794, 540822 through 540824 (excluding tariff item 540822aa, 540823aa or 540824aa), 540832 through 540834, 551219, 551229, 551299, 551321 through 551349, 551421 through 551599, 551612 through 551614, 551622 through 551624, 551632 through 551634, 551642 through 551644, 551692 through 551694, 600110, 600192, 600531 through 600544 or 600610 through 600644.

There is also a second general rule for the chapter which is applicable,

Chapter Rule 2: Apparel goods of this Chapter shall be considered to originate if they are both cut and sewn or otherwise assembled in the territory of one or more of the Parties and if the fabric of the outer shell, exclusive of collars or cuffs, is wholly of one or more of the following:

(a) Velveteen fabrics of subheading 580123, containing 85 percent or more by weight of cotton;
(b) Corduroy fabrics of subheading 580122, containing 85 percent or more by weight of cotton and containing more than 7.5 wales per centimeter;
(c) Fabrics of subheading 511111 or 511119, if hand-woven, with a loom width of less than 76 cm, woven in the United Kingdom in accordance with the rules and regulations of the Harris Tweed Association, Ltd., and so certified by the Association;
(d) Fabrics of subheading 511230, weighing not more than 340 grams per square meter, containing wool, not less than 20 percent by weight of fine animal hair and not less than 15 percent by weight of man-made staple fibers; or
(e) Batiste fabrics of subheading 551311 or 551321, of square construction, of single yarns exceeding 76 metric count, containing between 60 and 70 warp ends and filling picks per square centimeter, of a weight not exceeding 110 grams per square meter."

Brenton then suggests that "the basic rule of origin stipulates of chapter but then provides a list of headings and chapters from which inputs cannot be used. Thus in effect the overcoat must be manufactured from the stage of wool fibres forward. In addition, Chapter Rule 1 stipulates that the visible lining used must be produced from yarn and finished in either party. This rule may well have been introduced to constrain the impact of the tolerance rule which would normally allow 7 per cent of the weight of the article to be of non-originating materials. In overcoats and suits the lining is probably less than 7 per cent of the total weight. The second chapter rule seems to provide very specific exemptions to the rules of origin for materials which are in short-supply or not produced in the US or in Singapore, see category (c) for example, and reflects firm specific lobbying to overcome the restrictiveness of these rules of origin when the original NAFTA rules of origin were defined."

GDP for certain countries (11 percent for China). Some therefore argue that a focus on services is the key for developing countries in both regional and multilateral liberalization.

However, other studies produce much smaller gains, and data and the representation of barriers in ad valorem form may be problematic. In addition, these studies apply to genuinely multilateral liberalization rather than to the more asymmetric liberalization that may occur in SACU. Nonetheless, this may be the part of a SACU agreement most notable in its positive impacts on SACU members.

If, again, the Chilean precedent is followed, SACU will be asked to take on significant liberalization in the areas of banking, insurance, securities, and other related services. Under the Chilean arrangement, US insurance firms have full rights (with only very limited exceptions) to establish subsidiaries or joint ventures in Chile for all insurance sectors (life, nonlife, reinsurance, brokerage). US banks and securities firms may establish branches and subsidiaries, invest in local firms without restriction, and offer services to Chilean citizens participating in Chile's privatized voluntary savings plans. In telecommunications, US phone companies can interconnect with Chilean networks at nondiscriminatory rates. In e-commerce and digital products, duties are based on physical value (e.g., the disc, not the music). We anticipate these and other components being in a US-SACU agreement, but perhaps with little by way of new liberalization occurring on the US side.

The services area will pose special problems for SACU. First, with no coverage of services in SACU, if SACU is to negotiate as a single entity it will first have to agree on common positions among its members. We must note that currently their agreements do not extend beyond trade and issues directly related to it; there are no SACU-wide arrangements on most of the nongoods trade issues likely to be on the agenda for a US-SACU bilateral agreement.

Second, service sectors in each SACU country are heavily regulated, and if a US-SACU FTA includes services, major changes both within SACU members and between members will be required.

Third, and perhaps most important, the liberalization requested of SACU could well be asymmetric and markedly so in some key sectors, such as banking and insurance. While four of the five SACU members are part of the Rand Monetary Area,[3] whose currencies are irrevocably fixed to the South African rand, the licensing of banks and banking supervision in each SACU member is handled by each country's central bank under its national legislation. The same applies to insurance and other financial

3. The exception is Botswana, which established its own independent currency in 1976; it has since accumulated more than $5 billion in foreign-exchange reserves.

services such as mutual funds. In most cases the national legislation requires incorporation and capitalization in the country. The emphasis has been on maintaining solvent financial institutions to protect depositors' and policyholders' interests. Any proposal to establish free trade in banking and other financial services between SACU and the United States would require significant modification of current practices in these critical areas, in different ways, in each SACU country.

Investment

Major bilateral protection of investors along the lines of the NAFTA agreement will likely be proposed. These may include rights to establish, acquire, and operate investments in either region on an equal footing, as well as rights to due process protection and fair market value compensation in the event of expropriation. Local content rules on inputs to be used by investors will likely be banned. None of these provisions currently applies under the SACU treaty. Some SACU members have investment promotion schemes that are biased in favor of citizen entrepreneurs.

Intellectual Property

Here existing (or yet to be implemented) WTO levels of intellectual property protection will likely be enhanced in several ways, as in the Chile agreement. There will be protection for copyrighted works in digital form, expanded protection for patents and trade secrets, and stronger penalties for piracy and counterfeiting.

SACU currently does not deal with issues of intellectual property rights, and in some of the countries, which have lagged in implementing WTO disciplines, there are effectively only limited (or no) intellectual property regimes. Coming into compliance in this area will again pose tough challenges and require major change for some SACU members.

Competition Policy

SACU members will likely be requested (as in the Chile agreement) to install and maintain laws that prohibit anticompetitive business behavior and regulate state-owned enterprises. At present, laws governing competition in SACU members are focused not so much on ensuring open markets as on preserving certain activities threatened by outside competition. The new SACU agreement requires members to have competition policies. Whether the laws of individual countries can conform with the range of commitments mandated by the US-Chile agreement is an open question.

Government Procurement

The Chile agreement in effect extends WTO procurement agreements to all regional and municipal governments in both countries; a US-SACU agreement could take a similar form. Compliance may require that domestic preference in government procurement—in place in several SACU members—be abandoned; it could be particularly problematic for South Africa, with its separate provincial jurisdictions.

Customs Procedures

Information sharing and transparency provisions would likely apply in the area of customs. There are no formal common customs procedures currently in SACU, but in practice the nations cooperate considerably in dealing with fraud and similar matters. Plans are afoot to create a common customs declaration form to be used for intra-SACU trade to document each transaction for each of the exporting and importing countries.

Temporary Entry of Personnel

If the Chilean model is followed, NAFTA-style temporary entry visas will also apply. They are unrestricted for entry to Chile, but on the US side they are limited to holders of four-year degrees and subject to a numerical cap. SACU, we presume, could be asked to enter into similar arrangements.

Labor and the Environment

On both labor and the environment, given the flux on these issues in the WTO, the likely content of a US-SACU bilateral agreement is less clear. Worker rights as set out in the International Labor Organization will probably be reaffirmed, and there will likely be joint environmental projects, as in the Chile agreement. Special procedures for settling cases involving environmental disputes could be devised. Some form of environment impact assessment might also be agreed on.

Dispute Settlement

Bilateral dispute settlement as in the Chile agreement may be adopted. An important new feature could be the imposition of fines to enforce rulings. Given the thrust to establish new FTAs, pressures on the United States from the potentially high number of bilateral dispute panels could become a factor. If NAFTA teaches us anything, it is that bilateral dispute resolution arrangements will not fully restrain the United States from using antidumping and countervailing duties to protect specific sectors.

In sum, a US-SACU agreement could involve bilateral free trade in goods (with rules of origin, especially in textiles and apparel and in autos), asymmetric liberalization in services, bilateral investment protections, strengthened intellectual property arrangements, arrangements on competition policies, and a series of related measures in other areas. Bilateral preferential access in goods would be temporary if it were eventually superseded by the WTO's elimination of nonagriculture tariffs in the Doha Round in 2015, as the United States has proposed.

Issues in Noncommodity Trade Areas

In many ways, it is the noncommodity trade areas of a US-SACU agreement that offer simultaneously the greatest potential benefits to both parties and also the greatest challenges. SACU members will face many difficulties, not the least of which is that SACU is an agreement covering only trade in goods. At present, SACU negotiating capability in these areas is extremely limited. In the WTO it is accepted that negotiating capacity in these areas must be developed in lower-income countries. Similar issues now arise in preferential trade agreements. These and other issues have recently been explored by Aaditya Mattoo and Carsten Fink (2002).

Another central issue in this area is the extent to which potential commitments by SACU are fairly balanced, both in reality and in the perceptions of others. If the broad deal is understood effectively as a bilaterally accelerated removal of tariffs on goods—tariffs that anyway (under current US WTO proposals) would largely disappear by 2010 and would be totally gone by 2015—in return for large and mainly unreciprocated liberalization in nontrade areas by SACU, such a deal may well be rejected by SACU as showing insufficient balance.

In services it is likely that commitments will be sought by the United States across a wide range of sectors. If the Chile agreement is taken as a guide, some degree of two-way commitment could be demanded in a list of peripheral services, including computer and related services, audiovisual services, construction and engineering, tourism, advertising, express delivery, professional services (architects, engineers, accountants), distribution services, adult educational training, and environmental services. However, the core services of banking, insurance, and telecommunications could well be areas where mainly SACU commitments alone would apply. These would make it possible for various services—among them insurance and banking, brokerage, retirement income advice, and management—to cross borders.

In investment, the focus will likely be on investor guarantees, somewhat similar to Chapter 11 arrangements in NAFTA. Arrangements pertaining to intellectual property would be strengthened and extended into new areas, including digital content. An especially significant set of issues will likely pertain to drugs and patent protection related to social calamities, as discussed recently in the WTO. SACU will no doubt raise issues connected with AIDS-related medications.

South Africa's post-apartheid policy thrust has been to open up markets to competition, and the smaller SACU members have all been developing new competition policies harmonized with the South African approach. These approaches may not be compatible with the US approach. However, allowing freer entry of US firms to compete with local firms might provide a major benefit to SACU consumers.

Negotiating new bilateral rules on labor migration poses special difficulties; any liberalization on the US side will likely be restricted numerically and in other ways, as in the Chile agreement. The parallel development of US-SACU dispute resolution mechanisms may also prove challenging. SACU's new agreement, for instance, contains an untried provision under which the council of ministers refers disputes to ad hoc tribunals.

We see these noncommodity trade issues as perhaps the most significant quantitatively for both SACU and the United States (even though few or no studies exist to test that view), and the hardest to negotiate. There is both a limited capacity on the SACU side to negotiate and a perceived (if not actual) one-sidedness to this part of any negotiated arrangement.

Third Parties

Any new bilateral preferential trade agreement will potentially affect third parties with which there are existing preferential trading arrangements. In the case of SACU, members are involved in preferential trading arrangements with two important third parties: the European Union and the Southern African Development Community.

The EU–South Africa and the EU-ACP (Cotonou) Agreements

One motive for the United States to establish trade and related agreements in many parts of the world is undoubtedly competition with either earlier or proposed EU initiatives made in the same markets.[4] The idea is to restore a level playing field for US exporters where EU preferential agreements exist. It is thus likely that the EU–South African agreement of

4. The Congressional Research Service report on FTAs (Cooper 2003) notes that the European Union has FTAs with a number of countries; similarly the CRS report explicitly points to the existence of Canada-Chile and Mexico-Chile FTAs, and the Japan-Singapore FTA.

1999 has been one factor in the United States' identifying SACU as a target for a US bilateral FTA negotiation.

Following its change in government, South Africa had hoped to be included in the European Union's agreements with former colonies: the African, Caribbean, and Pacific countries. The asymmetrical nature of the then EU-ACP agreement, which provided ACP countries with preferential access to the EU market while not requiring the reverse, was particularly attractive to South Africa. Arguing that certain aspects of the South African economy resemble those of a developed country, the European Union developed a two-track arrangement with South Africa: while putting in place a free trade agreement between the European Union and South Africa (signed in 1999) and including South Africa in the renewed arrangement with the ACP, the Cotonou Agreement (2000), it explicitly excluded South Africa from the trade arrangements of the Cotonou Agreement and from access to the soft loan European Development Fund.[5]

The FTA portion of the EU–South African agreement covers 90 percent of bilateral trade, but it has some important exceptions. Separately negotiated agreements cover the entry into the European Union of wines and spirits, as well as the products of fisheries (still in process). South Africa continues to restrict entry of various industrial items, including motor vehicles and some textiles. In addition, provisions allow for safeguards when imports cause injury to a national industry.

Several trade-related issues, such as competition policy, intellectual property rights, free movement of capital, and technical barriers to trade, are covered; but significantly, core services (banking, insurance, telecommunications, and transportation) are not. Generally the language is couched in terms of objectives, with "consultations" and "close cooperation" as the mechanisms. In both the EU-SA and the Cotonou agreements, the European Union includes a reference to the importance of democratic principles, human rights, and the rule of law. Each party is free to employ "appropriate measures" unilaterally if the other violates those principles.

From a US point of view, a US-SACU agreement would redress the trade advantage currently enjoyed by EU exporters over US exporters in the South African market, as well as give preferences to US exporters in the rest of the SACU markets. The prior EU–South Africa agreement thus seems to be playing a clear role in driving forward a US-SACU agreement. But in the key areas of autos and textiles, different trade rules will apply. It is very likely that the United States would seek preferred access to the still highly protected SACU auto market. Yet if multilateral elimination of nonagricultural tariffs are achieved by 2015, all such effects will be temporary.

5. The Cotonou Agreement also includes a provision for phasing in reciprocal trade concessions, commencing in 2008.

Also, it is important to highlight the sharp differences in architecture between the US and EU approaches. The European Union negotiates de facto separately with South Africa and other SACU countries, recognizing their differences. The EU agreement explicitly states the wider humanitarian goals that underlie wider foreign policy, and proceeds to link them to trade. The EU agreement does not deal centrally with service and key nontrade issues. If the US objective were only to compete with the European Union, it might do the same. So perhaps the strategy is to go beyond the European Union into new areas, to establish a new US advantage. And perhaps the EU response will be to renegotiate, seeking also to extend into new areas. All these issues await resolution, but the need to consider the interplay between these agreements is obvious.

The Southern African Development Community

The five members of SACU all belong to the 14-member Southern African Development Community, and most SADC members have signed an FTA protocol,[6] effective September 2000, that envisions almost complete intra-SADC free trade by the year 2012. Hanging over the SADC FTA is a complex set of rules of origin, which differ across different types of goods (Flatters 2002). Rules of origin are not an issue within SACU, given the common external tariff.[7] Hence, the potential for inconsistencies between the protection of goods originating within SACU and goods originating elsewhere is substantial.[8] It is perhaps for this reason that in mid-2002, the SADC executive secretary proposed that SADC move to a customs union. This complex combination of actual and proposed preferential trading arrangements is illustrated in figure 12.1. Several SACU members also have bilateral free trade agreements with regional nonmembers, including Zimbabwe, Malawi, and Mozambique.

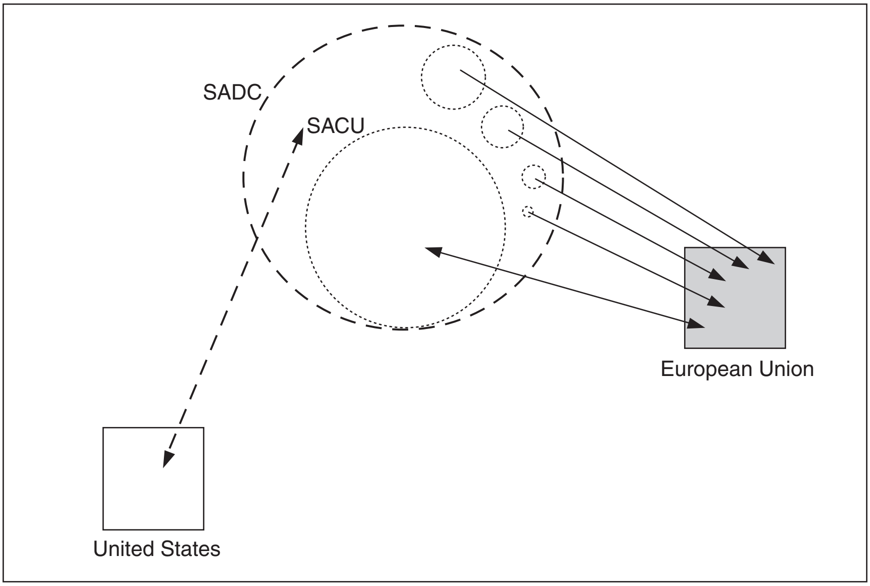
This overall picture—as both the United States and the European Union engage in a series of bilateral preferential arrangements—is what Ronald Wonnacott (1996) calls a "hub-and-spoke" system: the hubs in this case are the United States and the European Union, and the spokes are the individual countries or regions that have or are considering preferential bi-

6. Angola, the Democratic Republic of the Congo, and the Seychelles have not yet signed the SADC trade protocol.

7. Rules-of-origin issues arising from the EU-SA FTA are avoided by the European Union's treating all SACU-origin inputs as South African for purposes of calculating origin and the BLNS's being content to purchase lower-priced goods that enter duty-free through South Africa.

8. A further wrinkle is that two members of SACU (Namibia and Swaziland) also belong to the Common Market for Eastern and Southern Africa (COMESA), although they cannot grant duty-free entry to COMESA-origin goods.

Figure 12.1 Overlapping trade relationships between SACU, the United States, SADC, and the European Union



SACU = Southern African Customs Union
SADC = Southern African Development Community

lateral trading arrangements with each hub. While such competition between the European Union and the United States may hasten the ultimate goal of multilateral free trade, the significant effects that may occur in the interim need to be included in any evaluation of the FTAs' impact. For each spoke of an existing preferential arrangement, the addition of another spoke will reduce its margin of preference in the hub. This effect applies particularly to the non-SACU members of SADC in their relationship with SACU. Furthermore, the individual spokes could gain by collectively rather than individually dealing with the hub. For this reason, SACU clearly has an interest in coordinating its negotiations in concert with other US bilateral partners.

Within this context of preexisting preferential trading arrangements in southern Africa, new institutions barely under way, and a substantial unfinished agenda of intra-SACU policy development, the proposed US-SACU FTA poses challenges to SACU to both determine and promote the interests of its members in any negotiations. It is in part because of all these complexities, limited intra-SACU coverage across nontrade areas, complex bilateral agreements, limited negotiating capacity in some of the smaller SACU countries, and the need for a prior SACU negotiation that an obvious fundamental question arises. From the point of view of all the parties to the proposed SACU-US FTA, might not a dual-track arrangement—between the United States and South Africa and the United States and BLNS, much like the relationship between the European Union and South Africa and between the European Union and BLNS (under the Cotonou Agreement)—be simpler, easier, and quicker to negotiate? The economic impacts for the United States would be much the same, but the complexities would be much reduced. Alternatively, an asymmetric treatment of the smaller or poorer SACU members, allowing them a longer period of adjustment, might be contemplated. We put such issues to one side, given the stated US aim of bilaterally negotiating with SACU, and turn now to assessing the impacts of a US-SACU arrangement.

The Impacts of a US-SACU Arrangement

Evaluating the impact of a possible US–SACU arrangement involves an assessment of the initial barriers to flows of goods and services and the levels of intellectual property protection used by the two parties; the relative sizes of the potential markets, as well as the sizes of current and potential flows; and the strength of possible negative effects of trade and service diversion. Once these possible impacts are known, then an evaluation of the narrower commercial policy incentives to participate is possible for the two parties. This discussion puts to one side, for the moment, whether there is also a humanitarian, developmental, and implicit aid objective for the United States, possibly making a contribution to a rebuilding of African society worthwhile even if the balance of commercial advantage goes against the United States. Because other initiatives are already under way, including the US AGOA of 2000, evaluation of a bilateral agreement must take into account a changing trade policy environment.

The principal trade flows in the bilateral US-SACU relationship are set out in table 12.2. The United States now runs a substantial merchandise trade deficit with SACU, the outcome of rapid growth of SACU exports to the United States in recent years combined with stagnant US exports to SACU.[9] US imports from SACU are dominated by platinum (for catalytic converters) and diamonds, which are already largely duty-free, but SACU exports of autos and auto parts, as well as apparel, are growing rapidly. US exports of manufactures to SACU face tariffs that are still moderately high, although they have come down substantially in recent years (see table 12.3).[10] Service trade flows, for now, are probably small, but data are not readily available.

9. A large part of the change is probably due to the dramatic real depreciation of the rand against the dollar.

10. The IMF (2002) reports that the average unweighted tariff rate in 1990 was 30 percent.

Table 12.2 US-SACU trade flows in goods (millions of dollars)

HTS code	HTS category	1996	1997	1998	1999	2000	2001	2002
Imports from SACU								
7110	Platinum	744	754	1,006	1,002	1,529	1,534	1,173
7102	Diamonds	105	163	163	144	342	474	517
87	Motor vehicles and parts	46	57	76	120	150	359	573
61 and 62	Apparel	143	180	205	241	321	441	603
72	Iron and steel	338	306	467	393	462	289	302
26	Ores, slag, and ash	274	282	330	340	269	243	248
84	Mechanical appliances	79	72	91	121	154	253	235
	Other	741	899	912	1,027	1,252	1,178	1,108
	Total	**2,470**	**2,713**	**3,250**	**3,388**	**4,479**	**4,771**	**4,759**
Exports to SACU								
84	Mechanical appliances	793	756	763	578	541	540	501
88	Aircraft	162	178	733	400	609	631	317
87	Motor vehicles and parts	260	264	286	147	238	457	287
85	Electrical machinery and equipment	239	238	284	199	198	200	160
90	Optical instruments	149	157	168	155	148	153	150
	Other	1,509	1,408	1,356	1,148	1,214	1,142	1,139
	Total	**3,112**	**3,001**	**3,590**	**2,627**	**2,948**	**3,123**	**2,554**
	Bilateral balance	642	288	340	(761)	(1,531)	(1,648)	(2,205)

HTS = Harmonized Tariff Schedule codes
SACU = Southern African Customs Union

Source: US International Trade Commission, *Tariff and Trade DataWeb,* www.dataweb.usitc.gov, 2003.

Our evaluation of the impact of a US-SACU agreement follows from what we have already set out. While labeled a "free trade agreement," the reality of such an arrangement is more complex. The label suggests that its central element is trade in goods, but much more is involved in this case (services, investment, intellectual property, labor mobility, dispute settlement, and other areas). Also, post–Uruguay Round formal tariff barriers are already low,[11] save for remaining tariff peaks in textiles and apparel, though they are significantly higher on the SACU than on the US side. These tariffs facing SACU exports may in any case be phased out through multilateral negotiation in the WTO Doha Round. More significant access issues for SACU pertain to contingent protection—that is, antidumping and countervailing duties. These are governed by a US quasi-judicial process that is unlikely to be affected by a bilateral US-SACU arrangement.

In contrast, major barriers remain in the services area, where domestic regulation segments markets in banking, insurance, telecommunications, and transportation. This segmentation occurs both across US-SACU relations and within SACU. While bilateral flows of services between the

11. See also, however, Burfisher, Robinson, and Thierfelder (2003), whose discussion of the effects of regional trade agreements stresses new trade theory considerations.

Table 12.3 SACU tariff structure, 2000 and 1997

Sector	Number of lines, 2000	Imports, 2000 (percent)	Weighted average, 2000	Unweighted average, 2000	Unweighted average, 1997
Agriculture	295	0.8	1.4	4.2	5.6
Gas	2	0.0	0.0	0.0	0.0
Manufacturing	5,479	84.7	8.6	6.7	15.6
Mining	107	14.5	0.0	1.2	1.4
Total	**5,883**	**100.0**	**7.3**	**6.5**	**15.1**

SACU = Southern African Customs Union

Note: The source indicates that the tariff data refer to South Africa. However, because there is a common external tariff, and because many of the goods destined for the Botswana, Lesotho, Namibia, and Swaziland (BLNS) markets pass through South Africa, the data are a reasonable representation of SACU's tariffs.

Source: Cassim et al. (2002, table 3.11).

United States and SACU are still small relative to goods flows (lack of data is a major problem here), the barriers thrown up by licensing and other restrictions are sizable. The key, if the Chile agreement is a guide, is that the United States will likely seek what is in many ways one-sided liberalization: that is, freer entry for US service providers to SACU markets with little reciprocal improvement of access to US service markets. It may be that SACU providers cannot in fact compete in US markets, but unless improved access is offered this hypothesis will never be tested.

In addition, liberalization offered in other nonmanufactures areas of trade is also highly asymmetric in the Chilean case. Short-term permits are unconstrained for professionals entering Chile, but are to be numerically capped for those entering the United States. Agricultural liberalization occurs over a period of 4 years on the Chilean side, but over 12 years on the US side. Investment protections are designed for US investors in Chile, rather than for Chilean investors in the United States.

Thus, one could view the US-Chile agreement as primarily an asymmetric package to lower nonmanufactures trade barriers. If a US-SACU negotiation takes this direction, it may be similarly judged by those on the SACU side. SACU exporters in textiles might gain by being quota-free in the US market, but depending on what follows the elimination of MFA in 2005, this removal of quotas may be worth less than first appears. Given the relative scarcity of service arrangements in SACU, to be plunged into effectively unilateral liberalization in services (which did not occur with the EU-SA agreement of 1999) may be hard for SACU to deal with institutionally and politically, even if there are substantial benefits to domestic consumers.

The more direct impacts that may follow on trade and other bilateral flows are at this point unfortunately conjectural at best. Aaditya Mattoo, Devesh Roy, and Arvind Subramanian (forthcoming) assess the impacts of AGOA as surprisingly small, and attribute this result to the restrictions pertaining to rules of origin. Jagdish Bhagwati (2002) suggests that most benefits for smaller entities such as SACU from such arrangements could potentially be achieved by unilateral liberalization without the trade diversion costs of regional agreements, although his analysis neglects the access benefits to US markets. Paul Collier and Jan Willem Gunning (1999), who discuss the reasons for poor African growth, do not put access barriers high on their list. Paul Brenton and M. Manchin (forthcoming) highlight the role of rules of origin in making EU agreements work, something that also may apply to a US-SACU arrangement.

Trade liberalization and the removal or lowering of trade barriers are generally viewed by economists as good; and economic theory clearly suggests that as the smaller partner, SACU should benefit disproportionately from a US-SACU arrangement. Theory also suggests that there is likely to be trade diversion where existing barriers are high, such as in services. But the combination of an FTA with temporary and small barriers in the large market and all the add-on diversions does not guarantee that such an arrangement will be welfare enhancing. Also, such an arrangement may be so broad that it will prove impossible to negotiate with the whole of SACU at this time of flux. Simpler alternatives may need to be explored.

Developmental Implications for Southern Africa and Concluding Remarks

In our view, the political reality is that debate in both SACU and the United States on a US-SACU FTA cannot be delinked from wider foreign-policy and developmental issues, nor perhaps should it be. Some of the key questions raised may include the following: Would a proposed US-SACU FTA contribute to the development of the southern African region? Would it contribute to a reduction of poverty in the region? if so, in what ways? Will unemployment rates in South Africa and in SACU grow with liberalization?

It is widely acknowledged that successful development depends on good policies (Burnside and Dollar 2000). Among the "good policies" usually credited for successful development is the alignment of domestic prices with world market prices, usually achieved by movement toward freer trade. Such a policy stance also limits the power of domestic monopolies and the power of specific interests to capture transfers from the rest of society, thereby forcing entrepreneurs to continuously pursue the innovation on which productivity growth depends. Empirical work that draws on both developing and mature economies offers evidence that trade has a significant and positive effect on growth (Frankel and Romer 1999), although Mattoo, Roy, and Subramanian (forthcoming) argue the size of the effect is uncertain. This suggests that the US-SACU FTA, and a fortiori in combination with the EU-SA FTA, could bring substantial development benefits to the region by hastening the process of trade and market liberalization.

Major caution is in order, however, regarding even this qualified claim of benefit. First, the poverty effects in SACU of an FTA with the United States may be negative. While in general it is reasonable to presume, after Jagdish Bhagwati and T. N. Srinivasan (2002), that trade promotes growth and that growth reduces absolute poverty, the opposite outcome is possible in the current circumstances of SACU. Given the distortions in both the goods markets and the factor markets of SACU, as well as the partial nature of any US-SACU trade liberalization, it would be too facile to presume a positive effect on the poor. Furthermore, the region's comparative advantage is based on natural resources, while natural resources and capital appear to be complementary inputs.[12] In these circumstances, a movement toward freer trade will very likely reduce demand for labor in a labor market that is already exhibiting significant evidence of unemployment.[13] Thus for poverty reduction to result from trade liberalization, the distortions giving rise to the unemployment must also be tackled. This link between liberalization and unemployment is likely to be a central issue in the debate within SACU on an agreement.

Second, as Collier and Gunning (1999) contend, nontrade issues are the more critical in explaining Africa's slower growth performance. Of particular significance is the development of institutions. William Easterly and Ross Levine's recent work (2002) argues that once one controls for institutions, the effect of good policies on growth disappears. If that is the case, we need to be concerned about the effectiveness of SACU's regional and national institutions. This concern applies not only to the new policies and programs being negotiated and then administered, such as the proposed US-SACU FTA, but also to existing national economic institutions.

South Africa, over the twentieth century, developed effective institutions that reflected the wishes of the governing interests. As the governing interests changed in the 1990s, the institutions were largely maintained—both by the Government of National Unity and by the African National Congress–led government. Unlike the changeover in Zimbabwe in 1980, that in South Africa kept the experience base of existing institutions intact. Consequently, today's economic institutions remain both effective and largely attuned to the wishes of the new governing interests.

Botswana, which has maintained both institutional and political continuity since its independence in 1966, is similarly reasonably well positioned to negotiate and administer a new arrangement, and then to reap the growth benefits from the increased openness that results. Namibia, which has been independent for a far shorter period (since 1990), and Lesotho and Swaziland, which have ongoing constitutional turmoil, are less well equipped institutionally.

12. Alleyne and Subramanian (2001) show that South Africa's exports are capital intensive.

13. The IMF (2002) cites South Africa's official unemployment rate for 2001 as 28.8 percent.

The new SACU is only now commencing to build its institutions. While the new institutions will be able to draw on the experience base of SACU's members, the institutions themselves have yet to develop. SACU policies dealing with industrial development, competition, and "unfair" trade practices face a significant gestation period. Yet such SACU policies may be a prerequisite for coming to terms with the United States on many of the nontrade issues that the United States will likely seek to include in any agreement. The need for considerable patience on the part of all parties to the negotiation is clear. The United States will need to be patient with the need for SACU to develop policy positions, and SACU will need to be patient with a potentially overstretched US trade representative.

The promise of substantial American funding for technical assistance announced at the time of US Trade Representative Robert Zoellick's January 2003 visit to South Africa may be of some help in the institution-building process. However, unless that technical assistance is perceived by the SACU governments and the new SACU institutions as working to promote their interests, rather than simply pushing the agenda of the donor (as has happened all too often with donor-funded advice), it will do little to promote the agreement as benefiting all parties. Another nontrade issue that is likely to be on the table is the matter of capital controls. As Sidney Weintraub's chapter in this volume makes clear, capital controls were prohibited in the Chile and Singapore agreements at the insistence of the US Treasury.[14] Chile, in particular, had been relatively successful for several years at avoiding the disruptive effect of "hot money" on the real side of the economy. On more than one occasion in the past, South Africa has used the financial rand to separate the exchange rate for current account transactions from the exchange rate for capital account transactions, allowing real adjustment to a major capital flow to be made gradually over months, not days. The governments of the countries of southern Africa may not be willing to give up this degree of freedom in dealing with international financial disturbances.

On balance, however, we believe that since the principal impact of a US-SACU FTA will be to align SACU prices more closely with world prices, the effect on the region is likely to be positive. Such an agreement may also provide the opportunity for SACU member governments to launch much-needed regulatory reform, which is particularly important in unleashing the forces of "creative destruction" (Aghion and Howitt 1992). To be seen to be pressing a growth-promoting agenda is clearly in the foreign-policy interests of the United States. Furthermore, this thrust is likely to coincide with the new governing interests in South Africa, which are less beholden to the import-substitution sector that was built up under apartheid. The rest of SACU has a fundamental interest in freer

14. Chile is allowed to impose restrictions for 12 months on certain types of speculative capital, as long as those restrictions do not substantially impede capital transfers.

trade with the rest of the world, as the bulk of consumer goods are protected by the common external tariff and most exports sell on the world, not regional, markets. If this change in incentives can be accompanied by a reduction of factor-market distortions, especially in South Africa, and by effective SACU institution building, then the development benefits for the region will begin to flow.

References

Advisory Committee for Trade Policy and Negotiations. 2003a. The US-Chile Free Trade Agreement. Washington: Office of the US Trade Representative.

Advisory Committee for Trade Policy and Negotiations. 2003b. The US-Singapore Free Trade Agreement. Washington: Office of the US Trade Representative.

Aghion, Philippe, and Peter Howitt. 1992. A Model of Growth Through Creative Destruction. *Econometrica* 60, no. 2 (March): 323–51.

Alleyne, Trevor, and Arvind Subramanian. 2001. *What Does South Africa's Pattern of Trade Say About Its Labor Market?* IMF Working Papers 01/148. www.imf.org/external/pubs/ft/wp/2001/wp01148.pdf (July).

Bhagwati, J.N. 2002. The Poor's Best Hope. *The Economist*, June 22, 24–26.

Bhagwati, Jagdish, and T.N. Srinivasan. 2002. Trade and Poverty in Poor Countries. *American Economic Review* 92, no. 2 (May): 180–83.

Brenton, Paul. 2003. Notes on Rules of Origin with Implications for Regional Integration in South East Asia. www.iadb.org/intal/foros/LAbrenton_paper.pdf.

Brenton, Paul R., and M. Manchin. Forthcoming. Making EU Trade Agreements Work: The Role of Rules of Origin. *World Economy.*

Burfisher, Mary E., Sherman Robinson, and Karen Thierfelder. 2003. Regionalism: Old and New, Theory and Practice. Paper presented at the conference Agricultural Policy Reform and the WTO: Where Are We Heading? sponsored by the International Agricultural Trade Research Consortium (IATRC), Capri, Italy (June 23–26).

Burnside, Craig, and David Dollar. 2000. Aid, Policies, and Growth. *American Economic Review* 90, no. 4 (September): 847–68.

Cassim, Rashad, Donald Onyanso, and Dirk Ernst van Seventer. 2002. The State of Trade Policy in South Africa. Trade and Industrial Policy Strategies, South Africa (March).

Collier, Paul, and Jan Willem Gunning. 1999. Why Has Africa Grown Slowly? *Journal of Economic Perspectives* 13, no. 3: 3–22.

Cooper, William H. 2003. *Free Trade Agreements: Impact on US Trade and Implications for US Trade Policy.* Congressional Research Service, Report RL 31356. Washington: Congressional Research Service, Library of Congress. Available at www.fpc.state.gov/documents/ organization/9674.pdf (April 9).

Dee, Philippa, and Kevin Hanslow. 2000. Multilateral Liberalization of Services Trade. Productivity Commission Staff Research Paper. Ausinfo, Canberra.

Easterly, William, and Ross Levine. 2002. *Tropics, Germs, and Crops: How Endowments Influence Economic Development.* NBER Working Paper 9106. Cambridge, MA: National Bureau of Economic Research.

Flatters, Frank. 2002. SADC Rules of Origin: Undermining Regional Free Trade. Paper presented at the Trade and Industrial Policy Strategies Annual Forum, South Africa, September 9–11. Available at qed.econ.queensu.ca/pub/faculty/flatters/writings/ff_sadc_roo_tips_forum.pdf.

Frankel, Jeffrey A., and David Romer. 1999. Does Trade Cause Growth? *American Economic Review* 89, no. 3 (June): 379–98.

Hudson, Derek J. 1981. Botswana's Membership in the Southern African Customs Union. In *Papers on the Economy of Botswana*, ed. Charles Harvey. London: Heinemann.
IMF (International Monetary Fund). 2002. South Africa, Staff Report for the 2002 Article IV Consultations, Washington (June).
Kirk, Robert, and Matthew Stern. 2003. The New Southern African Customs Union Agreement. SADC and the World Bank. Photocopy.
Leith, J. Clark. 1992. The Static Welfare Effects of a Small Developing Country's Membership in a Customs Union: Botswana in the Southern African Customs Union. *World Development* 20, no. 7: 1021–28.
Mattoo, Aaditya, and Carsten Fink. 2002. *Regional Agreements and Trade in Services: Policy Issues*. World Bank Policy Research Working Paper 2052. Washington: World Bank. Available at http://econ.worldbank.org/files/15653_wps2852.pdf (June).
Mattoo, Aaditya, Randeep Rathindran, and Arvind Subramanian. 2001. *Measuring Services Trade Liberalization and its Impact on Trade Growth: An Illustration*. World Bank Working Paper 2655. Washington: World Bank. Available at www.worldbank.org/research/trade/archive.html (August).
Mattoo, Aaditya, Devesh Roy, and Arvind Subramanian. Forthcoming. The Africa Growth and Opportunity Act and Its Rules of Origin: Generosity Undermined? *World Economy.*
Perroni, C., and J. Whalley. 2000. The New Regionalism: Insurance or Liberalization. *Canadian Journal of Economics* 33, no. 1: 1–24.
USTR (United States Trade Representative). 2002a. Free Trade with Chile. *Trade Facts*. Washington: United States Trade Representative.
USTR (United States Trade Representative). 2002b. Free Trade with Singapore. *Trade Facts*. Washington: United States Trade Representative.
Wonnacott, Ronald J. 1996. Trade and Investment in a Hub-and-Spoke System versus a Free Trade Area. *World Economy* 19, no. 3 (May): 237–52.
Zoellick, Robert. 2002. Unleashing the Tradewinds. *The Economist*, December 7, 27–29.