World Development Vol. 36, No. 3, pp. 461–484, 2008

0305-750X/$ - see front matter

ELSEVIER

www.elsevier.com/locate/worlddev

doi:10.1016/j.worlddev.2007.03.005

An Analysis of a US–Southern African Customs Union (SACU) Free Trade Agreement

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Summary. — This paper analyzes the potential economic effects of bilateral negotiations for an FTA between the United States and the Southern African Customs Union (SACU). The US–SACU FTA bilateral negotiations were initiated in June 2003, but have become deadlocked over a series of issues of concern to the SACU. To determine whether a bilateral FTA might be in the SACU members' interests, we use the Michigan Model of World Production and Trade to assess the welfare and other economic effects of a bilateral FTA. We conclude that the benefits of an FTA are rather small, and that the interests of the global trading community, including the United States and SACU, could be better served by unilateral and especially multilateral liberalization.

Key words — Free trade agreements, Unilateral liberalization, Multilateral liberalization, Africa, Southern African Customs Union

1. INTRODUCTION

This paper presents an analysis of the potential effects of a US bilateral free trade agreement (FTA) with the Southern African Customs Union (SACU), whose members include Botswana, Lesotho, Namibia, South Africa, and Swaziland. The bilateral FTA negotiations were notified to the US Congress by the US Trade Representative (USTR) in November 2002 but have become deadlocked following six official negotiating meetings. In mid-April 2006, a less ambitious program of bilateral negotiations was announced by the USTR, with FTA negotiations possibly to be resumed at some future date.

In Section 2 following, we present some background information on the SACU member countries, outline the objectives and main features of a US–SACU FTA, and provide a discussion of the conduct and current status of the US–SACU negotiations. Section 3 briefly describes the main features and data of the Michigan Model of World Production and Trade that we use to analyze a potential US–SACU FTA, together with the computational

* Helpful comments on earlier versions of the paper were provided by Greg Schoepfle and anonymous referees. Kozo Kiyota gratefully acknowledges financial support from the Japan Society for the Promotion of Science (JSPS) 2006 Postdoctoral Fellowships for Research Abroad. Final revision accepted: March 23, 2007.

modeling results of the FTA on the economic welfare, trade, output, and employment for the United States and the SACU. In Section 4, we provide a broader perspective on a US–SACU FTA that takes into account the potential effects of the unilateral removal of trade barriers by the United States and the SACU, and the effects of global free trade in which all countries/regions covered in the model are assumed to remove their existing trade barriers on a multilateral basis. A summary and concluding remarks are contained in Section 5.

2. THE CONTEXT, MAIN FEATURES, AND CURRENT STATUS OF NEGOTIATIONS ON A US–SACU FTA

(a) *Background information on the SACU member countries*

As noted in WTO (2000, p. xvii), the SACU countries differ significantly in terms of their levels of economic scale, structure, and development. Botswana and South Africa are upper middle-income countries, Namibia and Swaziland are lower middle-income countries, and Lesotho is the least developed country. Information on the structure of output and exports and imports of goods and services for 2004 is indicated in Table 1. It is evident that South Africa dwarfs the other SACU member countries.

As noted in WTO (2000, pp. 57–58), SACU exports go primarily to Western Europe and, within SACU, to South Africa. Imports are diversified across sectors and South Africa is the major supplier to the other SACU countries. SACU exports to the United States, which are comparatively small, are covered by US trade preferences under the Generalized System of Preferences (GSP) and the African Growth and Opportunity Act (AGOA). An indication of these preferences is indicated in Table 2 for Botswana, South Africa, and Other SACU for 2001–03. Noting the second last line indicating the share of the GSP/AGOA imports, it appears that the US preferential imports from the SACU consist mainly of textiles and apparel products and transportation equipment. In our computational analysis to follow, we shall accordingly assign zero US bilateral tariffs *vis-à-vis* the SACU to take the preferences into account.

(b) *The main features of a US–SACU FTA*

USTR Robert Zoellick (USTR, 2002) notified the US House and Senate on November 5, 2002 that the Administration intended to initiate free trade negotiations with sub-Saharan nations. The expressed objectives of the negotiations are as follows:

- To serve as the catalyst for increasing free trade between the United States and sub-Saharan Africa and increasing the private sector in the region.
- Deepen US economic and political ties to sub-Saharan Africa and lend momentum to development efforts for the region.
- Build on the success of the African Growth and Opportunity Act (AGOA) by expanding US access to the SACU market, further linking trade to SACU's economic development strategies, encouraging greater foreign direct investment, and promoting regional integration and economic growth.
- Strengthen growing bilateral commercial ties and address barriers in the SACU countries to US exports. Advance US objectives for the WTO multilateral negotiations and level the playing field in areas where US exporters are disadvantaged by the European Union's free trade agreement with South Africa.
- Reinforce the SACU reforms that have taken place and encourage additional progress where needed. An enhanced framework of rules governing trade and close cooperation will promote stronger economies, greater respect for the rule of law, sustainable development, and accountable institutions of governance.
- Focus ongoing bilateral and multilateral development assistance and trade-related technical assistance to support commitments that the SACU countries make as part of the FTA, and strengthen the government institutions in SACU countries that will be responsible for implementing their commitments."

In pursuing bilateral FTAs, the United States uses a common framework covering the issues to be negotiated with the partners involved. This framework, which is patterned after the North American Free Trade Agreement (NAFTA) negotiated in 1992–93, specifies in detail US negotiating objectives covering:

1. Trade in Industrial Goods and Agriculture.
2. Customs Matters, Rules of Origin, and Enforcement Cooperation.