

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

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## **Abstract**

Multilateralism has been the dominant approach to trade liberalisation. However, the trend towards bilateralism has been growing in recent years. For this reason, countries such as the United States of America have openly conveyed their support for negotiations of trade agreements of bilateral nature. The USA is an important traditional trading partner of Southern African Customs Union (SACU) countries who access the USA market primarily through the African Growth and Opportunity Act (AGOA) which is set to expire in 2025. There is uncertainty surrounding the renewal of this Trade Act. Hence, SACU has to be proactive and re-engage the USA in negotiation of a reciprocal trade agreement which can be in form of a comprehensive Free Trade Agreement (FTA). Given the importance of exports to economic growth prospects and the development agenda of SACU countries, it is vital for SACU to gain from this prospective deal. This is where this paper contributes to trade policy by applying a scientific approach to identify, in advance, products and sectors that should be prioritised in the negotiation of the prospective reciprocal trade agreement between SACU and the USA. The results reveal a total of 407 priority products identified in the USA market and 162 priority products identified in the SACU market. From the standpoint of both SACU and the USA, the majority of the priority products identified are in the clothing and textile, machinery and electrical, chemicals and allied industries, metals, and plastic or rubber sectors.

**Keywords:** Multilateralism; bilateralism; SACU; Negotiation process; AGOA; DSM; the USA; Sustained export opportunities; exports; imports.

## **Introduction**

The swift escalation of global interdependence, 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 back to the classical school of thought which started with Adam Smith in the 18<sup>th</sup> century. The work of David Ricardo, Torrens, James Mill, and John Stuart Mill in the first part of the 19<sup>th</sup> 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 pursuit of freer international trade, various nations have been engaging in trade negotiations and pursuing 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 had been pursuing for several years prior to the 1947 GATT (Azevêdo, 2014). Hence, securing and strengthening external trade relations through distinct trade agreements has facilitated widening and deepening of international trade cooperation amongst trading nations (Dent, 2006). In view of that, agreements have been reached in novel policy areas such as trade in services, foreign investment, intellectual property, government procurement and E-Commerce (World Trade Organisation [WTO], 2011).

Since the formation of WTO in 1995, multilateralism has been the dominant approach to liberalise trade. Today, there is an increasing tendency towards bilateralism. In fact, many governments throughout the world have signed, are negotiating, or contemplating to negotiate new Bilateral Trade Agreements (BTAs). BTAs are not a new phenomenon and can be traced back to the days before the 1947 GATT (WTO, 2017a). Similar to other types of trade agreements, the central economic aim of BTAs is to diminish trade barriers and liberalise trade and investment rules between two countries. This expands market access, which is crucial for export growth, foreign export earnings, and investment.

However, BTAs have grown more rapidly since the inception of the WTO and they have become a noticeable feature of international trade (WTO, 2017a). 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<sup>1</sup> (Lester, 2016). In addition, the negotiation and implementation of BTAs is quicker and easier in comparison to Multilateral Trade Agreements (MTAs) (McMahon, 2006). Some members of the WTO, especially the developed countries, are of the belief that fresh tactics are required to achieve meaningful outcomes in multilateral trade negotiations (Lovett *et al.*, 2004).

Central to the WTO decision-making process is consensus and the single-undertaking principle. This means that all facets of a WTO negotiating round must be acceptable to all members of the WTO prior to conclusion of the round (WTO, 2002). Accordingly, it is arguable that reaching consensus amongst a lengthened and more diverse WTO membership will unsurprisingly be discouraged by coordination challenges (MacMillan, 2014). This lack of consensus amongst the WTO members has made the WTO an organisation that enemies of globalisation and free trade dislike. In fact, the WTO has been frequently accused of acting as some kind of global administration which undermines national sovereignty (Krugman *et al.*, 2012).

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<sup>1</sup> The Doha Round was formally launched in November 2001 at the WTO's 4<sup>th</sup> Ministerial Conference in Doha, Qatar, with the aim of achieving major improvements in the multilateral trading system through the introduction of lower trade barriers in consort with revised trade rules (WTO, 2017b). The Round is also semi-officially known as the Doha Development Agenda as its central objective is to expand developing countries trading prospects (WTO, 2017b). Discussions on agriculture have delayed the conclusion of the Doha Round (Popa, 2012). For instance, the USA and the European Union (EU) have pushed hard for developing countries to liberalise their industrial and services sectors, while constantly denying the call to diminish their agricultural subsidies, in real terms, which is a key request for developing countries (Kleimann & Guinan, 2011).

Given the difficulties facing the WTO and the complexity of the multilateral trade negotiations, countries such as the USA have entered a new era moving towards bilateralism driven by market access, foreign policy, fairness, environmental, and social concerns (Heydon & Woolcock, 2009). For instance, in the 2017 President's Trade Policy Agenda, the Trump administration acknowledges that the time has come for a major review of how the USA approaches trade agreements (United States Trade Representatives [USTR], 2017). The administration claims to believe in free and fair trade and clearly states that it will tend to focus on bilateral negotiations, holding USA's trading partners to higher standards of fairness and at the same time use all possible legal measures in response to trading partners that continue to engage in unfair trade activities (USTR, 2017). In fact, according to the Trump administration, USA's economic growth and development objectives can be best achieved by concentrating on bilateral instead of multilateral negotiations (USTR, 2017).

Nevertheless, 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 the Trade Act expires in 2025. This presents challenges of trade policy uncertainty to AGOA beneficiary countries and more particularly to USA's traditional trading partners such as SACU Member States. This emanates from the fact that, to be proactive, such trading partners may have to engage the USA in bilateral trade negotiations in preparation for their post-AGOA trade relationship with the USA.

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 BTA in place that includes products between SACU and the USA. This is despite the existence of a Trade and Investment Framework Agreement (TIFA), namely, Trade, Investment and Development Cooperation Agreement (TIDCA) between SACU and the USA. Hence, 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 should be negotiated between SACU and the USA. In fact, SACU has to re-engage the USA in negotiation of a FTA, since the parties already attempted to negotiate a FTA between 2003 and 2007, although the talks were abandoned.

It is vital for SACU to gain from this prospective trade deal, considering the global economic context and the importance of exports to SACU Member States. This is where this paper contributes to trade agreements and trade negotiation literature by developing a scientific approach 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. The scientific approach is applied in this paper to identify, in advance, products and sectors that should be prioritised in the negotiation of a prospective reciprocal trade agreement between SACU and the USA. Hence, the prime question that this paper seeks to answer

is: which products and sectors should SACU and USA policymakers prioritise when negotiating the prospective SACU-USA FTA?

The rest of this paper is structured as follows: a brief review of related trade negotiation and agreements literature; a description of the research method applied in this paper to answer the research questions and to achieve the objective of this paper; a presentation and analysis of the results obtained in this paper; and conclusion and recommendations for future research which brings this paper to an end.

## **Literature review**

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 cannot 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 already mentioned, 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). 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 had been pursuing for several years prior to the 1947 GATT (Azevêdo, 2014). Nevertheless, since the 1947 GATT, countries have engaged in extensive trade liberalisation<sup>2</sup> that has led to a decline in the average global MFN applied tariffs from 40% in 1947 to approximately less than 10% at present (Cimino-Isaacs, 2018). This is despite some writers such as Bown and Irwin (2016:18) finding that the average tariff amongst 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 in recent years. For several years, multilateralism has been

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<sup>2</sup> 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).

the dominant approach to trade liberalisation. However, the trend towards bilateralism has been growing in recent years. For this reason, some countries such as the USA have openly conveyed their support for negotiations of trade agreements of bilateral nature. In actual fact, the majority of the binding trade agreements currently notified to the WTO and in force are BTAs.

### **Theoretical review**

The preliminary attempts to analyse economic challenges appear in the literatures of the ancient Greeks. For instance, Plato acknowledged the economic foundation of social life and structured a model society based on careful division of labour in his Republic (Smelser, 1992). 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 (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 laid the foundation of free trade as we know it today.

Although trade liberalization has partially been an outcome of countries unilaterally reducing their tariffs, much of trade liberalization following the World War II has been an outcome of trade agreements, which are achievable through trade negotiations (Krist, 2013). Hence, it is in theories that form the theoretical foundations of trade agreements and trade negotiations where this study is theoretically underpinned.

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 (Beshkar & Bond, 2017): 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.

Nonetheless, two famous theoretical approaches to the question of why countries negotiate and sign trade agreements partially forms the theoretical underpinning of this study. The first theoretical approach is the Terms of Trade (TOT) externality theory. In terms of the TOT externality theory, the purpose of trade agreements is to eliminate the TOT externality (Gawande & Jo, 2014). The theory argues that political concerns, in isolation, do not generate a motive for countries to negotiate and sign trade agreements (Maggi, 2014). The second theoretical approach is the commitment theory. In terms of this

theory, a trade agreement can assist as a commitment instrument that ineffective administrations can utilise to diminish domestic protectionist pressure (Beshkar & Bond, 2017).

In recent years, irrespective of size, economic muscle, geographical position, social structure, and so on, 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 and 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 in theoretical context, two well-known negotiation theories (i.e. game theory and linkage theory), which also partially forms the theoretical underpinnings of this study are discussed. According to the game theory, if countries choose to engage in trade negotiations (i.e. bilateral, regional, plurilateral and/or multilateral) aimed at liberalising trade, they can evade the reciprocally destructive inclinations of protectionism (Makki *et al.*, 1994). In fact, 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 deters governments from pursuing what seems to be sensible short-term strategies, in the interest of accomplishing supreme long-term outcomes for their countries and possibly themselves (Abbott, 1985).

While the approach in which the game theory informs economic policy-making has extensive implications in the field of trade negotiations, current trade negotiations are also influenced by the previous trade negotiations undertaken by the negotiating parties (McGrath, 2003). In other words, current trade negotiations are linked to the past trade negotiations performed by the negotiating parties. In this regard, a distinct negotiation can be seen as engrained in a pattern of negotiations. Hence, in trade negotiations, various linkages take place at bilateral, regional and multilateral level (Crump, 2011). In fact, multilateral trade negotiations can be superordinate to trade negotiations conducted at bilateral or regional level. For instance, trade negotiations between Mercosur and the European Union (EU) gained momentum in 2000 to 2001, but slowed down following a fruitful Doha Ministerial Conference (MC) in 2001 (Doctor, 2007). Furthermore, an impulse to conclude Mercosur-EU trade negotiations followed the disenchantment of the 2003 WTO Cancun MC (Kurtz, 2004). Moreover, 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 experience conclusion difficulties, it is more likely that certain stagnant bilateral and/or regional trade negotiations resume (Mansfield & Reinhardt, 2003). Nevertheless, as mentioned already, even though the trend towards bilateralism is growing, are BTAs always negotiated in the right manner?

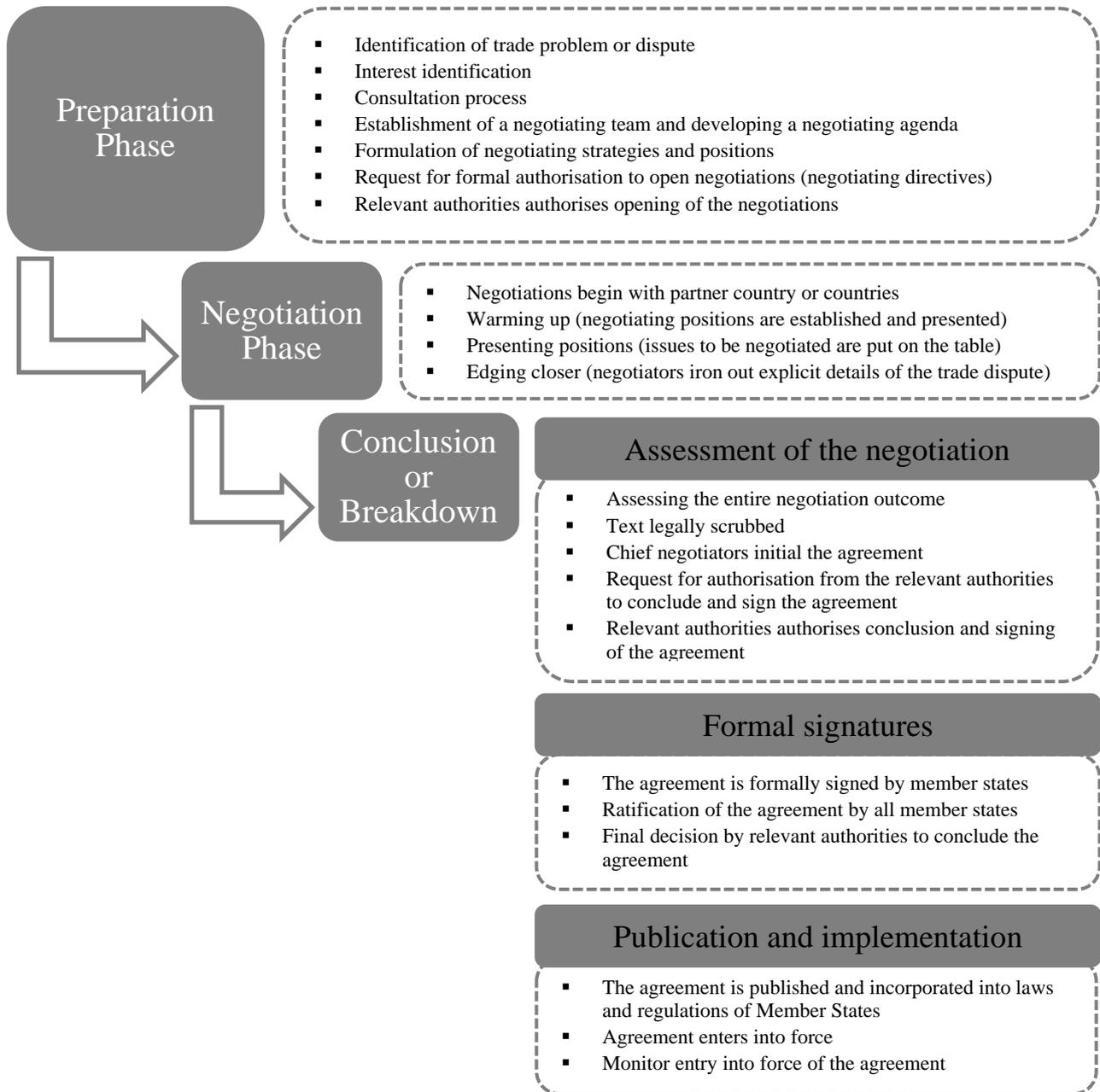
## **The bilateral trade negotiation process**

In recent years, countries progressively play a part in multilateral trade negotiations while simultaneously concluding BTAs. Unlike multilateral trade negotiations (i.e. negotiations undertaken within the framework of the WTO), 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). Nonetheless, similar to multilateral trade negotiations, analysis of bilateral trade negotiations reveals that they 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 (Bhattacharya, 2005; Saner, 2012; EC, 2013): 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. 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).

Similar to other types of negotiations, the distinct phases of the bilateral trade negotiation process require diverse negotiation tactics. Therefore, the negotiators should be well prepared as how to deal with different phases of the negotiation process. In addition, a good negotiation outcome requires extensive analysis of (Bhattacharya, 2005): 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. 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: Bilateral trade negotiation process



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

However, in the preparation phase of bilateral trade negotiation process (see Figure 1.1), there is no scientific approach that can be used to identify, beforehand, products and sectors that the negotiating parties should prioritise in the negotiations of BTAs. As a result, negotiating parties core competencies and the sustainability of the import market are not taken into consideration. This pose strain on the survival and sustainability of trade relationships evolving from such bilateral trade negotiations. Hence, it should be acknowledged that a fruitful trade negotiation outcome is governed, not only by reputable negotiating capabilities at the bargaining table, but by correspondingly careful planning and preparation of negotiators positioned on meticulous research and analysis (Saner, 2012).

## **The USA and SACU in the context of AGOA**

The USA is an important traditional trading partner of SACU countries who access the USA market primarily through AGOA. AGOA is a USA Trade Act, enacted on 18 May 2000 as Public Law 106 of the 200<sup>th</sup> Congress with the aim of expanding USA trade and investment with Sub-Saharan Africa (SSA), stimulating economic growth, encouraging economic integration, and facilitating SSA's integration into the global economy (United States Trade Representative [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 (United States Department of Commerce [USDC], 2016).

Under AGOA, 40 SSA countries, including SACU Member States, are granted unilateral market access by the USA on AGOA eligible products (USDC, 2016). AGOA extends duty and/or quota free access to the USA market on roughly 2000 Harmonised System (HS) product lines, in addition to 3400 product lines under its General System of Preferences (GSP) programme as well as 3800 product lines that are duty free under the USA's Most-Favoured Nation (MFN) offering (Prinsloo, 2016; USDC, 2016). SACU's main economy, South Africa, is currently utilising only about 165 USA National Tariff Lines (NTLs) under AGOA (Winant, 2016).

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 includes (USTR, 2014; AGOA, 2017a): 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. AGOA eligibility criteria also dictate removal of barriers to US trade and investment in AGOA beneficiary countries (Prinsloo, 2016; Winant, 2016).

As already mentioned, SACU members are also beneficiaries of the USA's AGOA<sup>3</sup>, which expires in 2025 (USDC, 2016). In fact, South Africa and Lesotho are currently amongst the leading AGOA exporters. A bilateral agreement, namely, TIDCA is in place between SACU and the USA. However, the agreement does not include any products (DTI, 2016). SACU and SACU's main economy, South Africa's, AGOA exports are shown in Figure 1.2. 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

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<sup>3</sup> Swaziland was declared AGOA ineligible on the 26<sup>th</sup> of June 2014. Data only includes South Africa, Namibia, Botswana and Lesotho. However, Swaziland was reinstated as an AGOA beneficiary on the 23<sup>rd</sup> of December 2017.

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 (AGOA, 2017b).

Figure 2: SACU and South Africa AGOA exports from 2001 to 2017



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

From SACU's perspective, there are three options that can be considered in preparation for post-AGOA relationship with the USA if AGOA is not renewed after its expiry in 2025 (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 makes it possible for the USA and SACU to increase the MFN tariffs they apply on each other, as long as the increase is within the margins of the WTO's bound tariff rates. The welfare, economic and sectoral effects of such a tariff policy reform, in which USA increases its applied MFN tariffs on all imports from SACU by a specific percentage and, similarly, SACU retaliates by increasing its applied MFN tariffs on all imports from the USA by the same magnitude, are simulated in Step 1.1 of the scientific approach applied in this study (see Section 1.6.2);

- Option B: A moderate tactic might be to negotiate a Partial Scope Agreement (PSA). PSAs are reciprocal trade arrangements between two or more parties in which the parties offer each other trade concession on only certain products or sectors (WTO, 2016a). More like FTAs, trade preferences under PSAs are not essentially zero rated from commencement. They can be staggered over a period of time, subject to the needs of Member States. The major dissimilarity between a PSA and a FTA is the scope of the agreements. More recent examples of PSAs include the PSA between Mauritius and Pakistan that entered into force in 2007 and the MERCOSUR–India PSA signed in 2009; and
- Option C: The most comprehensive option would be to re-engage the USA in negotiations of a FTA. The welfare, economic and sectoral effects of such a trade liberalisation policy reform, in which the USA and SACU eliminates all import and export taxes on their bilateral trade, are simulated in Step 1.2 of the scientific approach applied in this study (see Section 1.6.2). SACU and the USA attempted to negotiate a FTA between 2003 and 2007, but the talks were ultimately flouted. While both SACU and the USA were partially accountable for collapse of the negotiations, diversity and deficiency of coherence in trade and investment policy within SACU was contemplated as the prime obstacle for the USA. However, global as well as domestic political and economic atmosphere has considerably transformed in the previous decade, calling for reconsideration of this option. In fact, the past two decades have witnessed an exceptional increase of FTAs. Between 1970 and 1990, a total of eleven FTAs were signed in comparison to approximately 250 FTAs signed between 1990 and 2015 (WTO, 2017b).

If SACU decides to follow Option B and C, this means that the trading bloc will have to negotiate a new BTA 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). 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 proactive and look beyond the expiry of AGOA. In fact, from SACU's standpoint, negotiating a reciprocal BTA which can be in form of a FTA with the USA may be seen as a way of locking in the AGOA benefits if AGOA is not renewed upon its expiry in 2025 (Quelle, 2018).

Nonetheless, South Africa's agricultural benefits under AGOA were nearly revoked by the USA in 2016. This followed accusations by the USA that South Africa was not complying with AGOA legislation due to its import restrictions on USA's pork, beef and chicken over concerns of salmonella and avian flu (South African Government [SAG], 2017). Irrespective of this, the South African government acknowledges that trade with traditional partners in the west remains a significant contributor to the South African economy and SACU as a whole (Department of Trade and Industry [DTI], 2016). Hence, in his 2017 State of the Nation Address, the former president stated that SACU's

largest economy (South Africa) will continue to cooperate with the USA on issues of mutual interest including full renewal of AGOA in 2025 (SAG, 2017).

However, due to shifting political and trade environment, there is uncertainty surrounding the renewal of the USA Trade Act after it expires in 2025. Indeed, what will happen to SACU members after the expiry of AGOA in 2025 is indeterminate. If AGOA is not renewed, however, it is apparent that SACU's market access into the USA may be restricted as there is no BTA in place that include products. In fact, the trade relationship between SACU and the USA will be principally governed by the WTO's MFN principle. Hence, to be proactive, SACU has to re-engage the USA in negotiation of a reciprocal trade agreement which can be in form of a comprehensive FTA.

Given the importance of exports to the economic growth prospects and the economic development agenda of SACU countries, it is vital for SACU to gain from this prospective deal. This ushers in the need to develop a scientific approach to be applied in this paper to identify, beforehand, products and sectors that SACU and the USA should prioritise in the negotiation of the prospective SACU-USA FTA. The scientific approach combines two internationally recognised scientific research methodologies, namely, the Decision Support Model (DSM) of Cuyvers and Viviers (2012) and the International Trade Centre (ITC) Market Access Index (MAI) of ITC (2011).

## **Research method and design**

### **Research design**

The scientific approach applied in this paper consists of three steps. The first step focuses on the: identification of consistently large and/or growing import demand in the USA and in SACU for all products at the HS6-digit level, in Step 1.1; and the identification of products which SACU and the USA consistently export competitively (sustainable exports), in Step 1.2. The second step focuses 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. The third step focuses on: assessing the degree of concentration in the USA and SACU market, in Step 3.1; and assessing the degree of SACU's market access in the USA and USA's market access in SACU, in Step 3.2. Each of these methodological steps is discussed in the data analysis.

### **Data analysis**

#### ***Step 1.1***

In this step, consistently large and/or growing import demand in the USA and in SACU is identified for all products at HS6-digit level. The methodology applied in Cuyvers *et al.* (1995:179) and Cuyvers (1997:6; 2004:259-260) to identify markets with large and/or growing import demand for the different

products is followed. Three variables, that is, short-term import growth, long-term import growth, and import market size are calculated for each possible product-country combination in the USA and in SACU annually for five years from 2013 to 2017. Short-term import growth is calculated as a simple annual growth rate in imports while long-term import growth is calculated as the compounded annual percentage growth in imports over a five-year period. The relative import market size is calculated as the ratio of imports of country  $i$  for product  $j$  and the total world imports of product  $j$  (Cuyvers *et al.*, 1995:178; Cuyvers, 2004:259-260). USA and SACU import data at HS6-digit level from 2008 to 2017 is accessible on the UN COMTRADE database.

To identify those product-country combinations, in the USA and in SACU, with consistently large and/or growing import demand from 2013 to 2017, cut-off values are calculated for each of the three variables in each of the five years. Following Cuyvers (2004:260), cut-off values for the variables in this step are defined as follows:

Firstly, a scaling factor ( $S_j$ ) is defined when determining the threshold of the short and long-term import growth (Willemé & Van Steerteghem, 1993, as quoted in Cuyvers, 1997:5; 2004:260). The scaling factor enables country  $i$ 's degree of specialisation in the exports of product  $j$  to be taken into consideration when defining cut-off values (Cuyvers, 2004:260). It is argued that if the exporting country is already specialised in exporting product  $j$  as measured by the Revealed Comparative Advantage (RCA) index (see Equation 2), the cut-off values for the demand in the importing country can be less stringent (Cuyvers *et al.*, 1995:179).

The scaling factor ( $S_j$ ) can be mathematically formulated as (Willemé & Van Steerteghem, 1993, as quoted in Cuyvers, 1997:5; 2004:260):

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

Where:

$RCA_j$  : is the exporting country's RCA index for product  $j$  (Balassa, 1965; Reis & Farole, 2012).

$RCA_j$  is mathematically formulated as:

$$RCA_j = \frac{\left( \frac{X_{i,j}}{X_{w,j}} \right)}{\left( \frac{X_{i,tot}}{X_{w,tot}} \right)} \quad (2)$$

Where:

$X_{i,j}$ : is the exports of country  $i$  (which is the country for which utilisation of sustained export potential is being evaluated) of product  $j$ ;

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

$X_{i,tot}$ : is the total exports of country  $i$ ; and

$X_{w,tot}$ : is the total exports of the world.

The cut-off values are then defined as follows (Willemé & Van Steerteghem, 1993, as quoted in Cuyvers, 1997:5; 2004:260):

$$g_{i,j} \geq G_j \quad (3)$$

Where:

$g_{i,j}$ : is the short or long-term import growth rate of product  $j$  in 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  $g_{w,j}$  being the rate of growth of total world imports of product  $j$ .

This procedure is carried out five times for both short-term and long-term import growth rates for each year from 2013 to 2017 (Cuyvers, 1997:6; 2004:260).<sup>4</sup> Each product-country combination is assigned “1” if the criterion mentioned above is met or “0” if otherwise.

If the exporting country is not specialised in exporting product  $j$  ( $0 \leq RCA_j < 1$ ), the short or long-term import growth rate of product  $j$  in importing country  $i$  ( $g_{i,j}$ ) must be between one and two times the world’s average import growth rate of product  $j$ . If the exporting country is specialised in exporting product  $j$  ( $RCA_j \geq 1$ ), the short or long-term import growth rate of product  $j$  in importing country  $i$  ( $g_{i,j}$ )

<sup>4</sup> 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.

is permitted to be a bit lower than or equal to the world's average import growth rate of product  $j$  (Cuyvers *et al.*, 2012b:62-63).

In addition, the relative import market size of country  $i$  for product  $j$  is considered adequately large if (Cuyvers, 1997:6; 2004:260):

$$M_{i,j} \geq C_j \quad (4)$$

Where:

$M_{i,j}$ : is the relative import market size of product  $j$  in country  $i$ ; and

$C_j$  : is the cut-off value for relative import market size taking into account the exporting country's degree of specialisation in 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  $M_{w,j}$  being the total world imports of product  $j$ .

If the exporting country is not specialised in exporting product  $j$  ( $0 \leq RCA_j < 1$ ), imports of product  $j$  in importing country  $i$  ( $M_{i,j}$ ) must be between 2% and 3% of total world imports of product  $j$ . However, if the exporting country is specialised in exporting product  $j$  ( $RCA_j \geq 1$ ), imports of product  $j$  in importing country  $i$  ( $M_{i,j}$ ) must be greater or equal to 2% of total world imports of product  $j$  (Cuyvers *et al.*, 2012b:62-63).

Again, this procedure is carried out five times for relative import market size from 2013 to 2017. Each product-country combination is assigned "1" if the criterion mentioned above is fulfilled or "0" if otherwise.

The selection of markets in this step is done following the categorisation of product-country combinations as illustrated in Table 3.1 (Cuyvers, 2004:261). The product-country combinations are categorised annually for five years from 2013 to 2017. Product-country combinations falling in any of the categories three up to seven in each of the five years from 2013 to 2017 are selected as markets offering consistently large and/or growing import demand in the USA and in SACU.

Table 1: Categorisation of product-country combinations in step 2.1

Category	Short-term import market growth	Long-term import market growth	Relative 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)

Product-country combinations falling in category zero, one, and two in any of the five years are eliminated. Therefore, for a product-country combination to be selected, it should consistently (that is, for five years from 2013 to 2017) have an import demand with at least one or a combination of the following characteristics: relatively large import market size (category three); or relatively high short and long-term growth (category four); or relatively high short-term growth and a relatively large import market size (category five); relatively high long-term growth and a relatively large import market size (category six); or relatively high short and long-term growth as well as a relatively large import market size (category seven).

This study follows Cuyvers *et al.* (1995:179) and Cuyvers (1997:6; 2004:260) in determining markets with large and/or growing import demand. However, it repeats this analysis yearly for five times to identify those markets (in the USA and SACU, in this case) with consistently large and/or growing import demand.

Now that USA and SACU's product-country combinations with consistently large and/or growing import demand have been determined, the following step focuses on determining SACU and USA's consistently competitive export supply products.

### Step 1.2

This step focuses on determining SACU and USA's consistently competitive export supply products. Products which SACU and the USA consistently export competitively (sustainable exports) are identified.<sup>5</sup> Following Mhonyera *et al.* (2017), an assumption is made in this study that if a product is

<sup>5</sup> 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/>).

exported consistently with a comparative advantage ( $RTA > 0$  and  $RCA > 0.7$ ) over a five-year period, it can be classified as a sustainable export. Although the Revealed Comparative Advantage (RCA) index is frequently used as an indicator of a country's relative export competitiveness of a particular product, it only takes exports into account overlooking the possibility that a country might be a net importer of the product (Jessen & Vignoles, 2004). For that reason, the Revealed Trade Advantage (RTA) index which accounts for both exports and imports is utilised, in this step, as a proxy for international product-level export competitiveness (Vollrath, 1991; Steenkamp *et al.*, 2015). The RTA is calculated by subtracting a country's Revealed Import Advantage (RMA) for a particular product from its RCA.

The RCA index is an indicator of international trade specialisation. It measures a country's level of specialisation in exporting a certain product by dividing the share of that product in a country's exports by the product's share in world exports (Jessen & Vignoles, 2004). For the mathematical formula used to calculate RCA, see Equation 4.2. A RCA index equal to or greater than one means that a country is relatively specialised in exporting the product under consideration (Balassa, 1965; Cuyvers *et al.*, 1995:179). In addition, a RCA index close to zero means that a country exports very little of the product under consideration while a RCA index equal to zero means that a country does not export the product under consideration at all.

The RMA on the other hand is also an indicator of international trade specialisation. It measures a country's level of specialisation in importing a certain product by dividing the share of that product in a country's imports by the product's share in world imports (Jessen & Vignoles, 2004). The RMA of product  $j$  is mathematically formulated as:

$$RMA_j = \frac{\left( \frac{M_{i,j}}{M_{w,j}} \right)}{\left( \frac{M_{i,tot}}{M_{w,tot}} \right)} \quad (5)$$

Where:

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

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

$M_{i,tot}$ : is the total imports of country  $i$ ; and

$M_{w,tot}$ : is the total imports of the world.

A RMA index equal to or greater than one means that a country is comparatively specialised in importing the product under consideration. Furthermore, a RMA index close to zero means that a country imports very little of the product under consideration while a RMA index equal to zero means that a country does not import the product under consideration at all.

Subtracting Equation (4.5) from (4.2) gives the RTA of product  $j$ .

Therefore:

$$RTA_j = RCA_j - RMA_j = \frac{\left( \frac{X_{i,j}}{X_{w,j}} \right)}{\left( \frac{X_{i,tot}}{X_{w,tot}} \right)} - \frac{\left( \frac{M_{i,j}}{M_{w,j}} \right)}{\left( \frac{M_{i,tot}}{M_{w,tot}} \right)} \quad (6)$$

RTA index which accounts for both exports and imports is used as a proxy for international product-level export competitiveness (Vollrath, 1991; Steenkamp *et al.*, 2015). A RTA index greater than zero discloses positive comparative trade advantage or trade competitiveness (Vollrath, 1991; Steenkamp *et al.*, 2015). Therefore, it can be assumed that a RTA index greater than zero entails that the majority of the products exported are produced domestically as it corrects for re-exports (Vollrath, 1991; Steenkamp *et al.*, 2015).

In this step, RCA, RMA, and RTA indices are calculated for each product (at HS6-digit level) exported by SACU and the USA over a five-year period from 2013 to 2017. Following Cuyvers *et al.* (2012a),  $RTA > 0$  and  $RCA > 0.7$  are used as the selection criteria of products which SACU and the USA consistently exports competitively (sustainable exports). This means that SACU or the USA is a net-exporter of the product ( $RTA > 0$ ), and its RCA in exporting the product is already close to one (indicating export specialisation) ( $RCA > 0.7$ ). Products which fulfil the selection criteria are denoted by “1” each year from 2013 to 2017 or denoted by “0” if otherwise. Products which consistently fulfil the selection criteria (that is, with  $RTA > 0$  and  $RCA > 0.7$ ) for each of the five years from 2013 to 2017 are selected as products that SACU and the USA consistently export competitively (sustainable exports).

After identifying USA and SACU’s consistently large and/or growing import demand as well as the products which SACU and the USA consistently export competitively (sustainable exports) in step 2.1 and 2.2 respectively, the next step involves matching USA and SACU product-country combinations with consistently large and/or growing import demand to SACU and USA’s consistently competitive export supply products.

## Step 2

In this step, USA and SACU's consistently large and/or growing import demand is matched to SACU and USA's consistently competitive export supply products. In other words, USA and SACU product-country combinations with consistently large and/or growing import demand (see Section 4.2.3), over a five-year period from 2013 to 2017, are matched to products that consistently satisfied the selection criteria ( $RTA > 0$  and  $RCA > 0.7$ , see Section 4.2.4) over the same period and qualified for final selection as products which SACU and the USA consistently export competitively (sustainable exports). Only product-country combinations that qualified in step 2.1, matching products which qualified in step 2.2, are 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 (unsustainable exports) are 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 export the products consistently competitively (sustainable exports). The degree of market concentration and market access of the matched product-country combinations selected in this step are assessed in Step 4.1 (see Section 4.2.6) and 4.2 (see Section 4.2.7) respectively.

### Step 3.1

According to Cuyvers *et al.* (1995:180), being selected in Step 2.1 on the basis of consistently large and/or growing import demand does not necessarily mean that the market is easy to enter. Therefore, it is crucial to consider the degree of concentration of a particular market. This assists in determining whether the market is monopolistic or perfectly 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, a partial analysis carried out by 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 utilise the HHI of Hirshmann (1964), applied in the DSM of Cuyvers and Viviers (2012), to measure the degree of concentration in a specific market. The HHI is mathematically formulated as:

$$HHI_{ij} = \sum \left( \frac{X_{k,ij}}{M_{tot,ij}} \right)^2 \quad (7)$$

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, a HHI closer or equal to 1 indicates a higher market concentration while a 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 penetrate (Cuyvers *et al.*, 1995:180; Cuyvers 2004:261).

Cuyvers *et al.* (1995:180) put forward that when calculating cut-off points for market concentration, it has to be considered that concentration can be viewed as a bigger problem in a non-growing market than in a large, growing market. As a result, the cut-off values are calculated on the basis of the categories to which the various product-country combinations were assigned in Step 2.1.

According to Cuyvers (1997:8; 2004:264), the cut-off values are defined as follows:

$$h_k \geq HHI_j \quad (8)$$

Where:

$$h_k = \bar{x}_h - 0.05 \alpha \sigma_h : \text{for category 3}$$

$$h_k = \bar{x}_h + 0.05 \alpha \sigma_h : \text{for category 4; 5; and 6}$$

$$h_k = \bar{x}_h + 0.15 \alpha \sigma_h : \text{for category 7}$$

With

$\bar{x}_h$  being the average of the HHI-values of all product-country combinations under investigation;

$\sigma_h$  being the standard deviation of the HHI values of all product-country combinations under investigation; and

$\alpha$  being the alpha value starting at  $\alpha = 0$  and increases with increments of 0.001.

From the formula above, it is clear that a larger degree of concentration is acceptable for larger, growing markets. An  $\alpha$ -value is selected where there is a clear break in the number of product-country combinations selected (Cuyvers, 1997:8; 2004:264).

Those matched product-country combinations with low degree of concentration in the import market are selected in this step. While this step focuses on assessing the degree of concentration in the import market, the selected matched-product country combinations are subjected to further analysis in Step 4.2 in which the degree of accessibility of the import market is assessed.

### *Step 3.2*

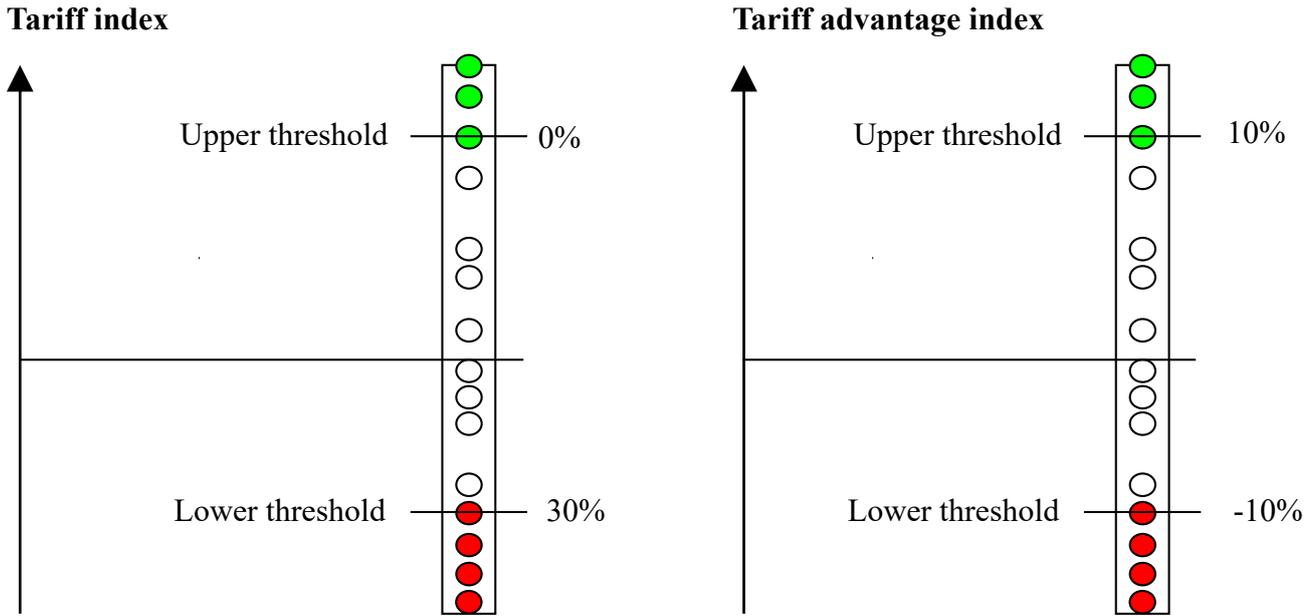
In this step, the degree of SACU's market access in the USA and USA's market access in SACU is assessed at HS6-digit level. The market access dimension of the ITC's MAI which refers to the conditions, tariff measures in this case, set by countries for the entry of specific products into their markets will be used in this study to measure the degree of market access. The general rule is that the easier the market access conditions are, the more competitive the exporters become in foreign markets. The variables used to measure the degree of market access in this study are tariff applied to the exporting country (%) and the exporting country's tariff advantage (%). Tariff charged to the exporting country is the duty charged to imports of exporting country's products in a specific country. Tariff advantage is the positive 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 (i.e. tariff charged to the exporting country < tariff charged to its competitors).

The formula in Equation 4.9 is used to convert the tariff and tariff advantage into indices. However, 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.

$$\frac{Value - Lower\ threshold}{Upper\ threshold - Lower\ threshold} \times 100 \quad (9)$$

As shown in Figure 3.2, 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 avoid having extreme values and also to partially correct for data quality problems since there is reason to believe that values extremely far from the average or normal range are more likely to reflect poor underlying data.

Figure 3: Visual illustration of upper and lower threshold of the tariff and tariff advantage indices



Source: Authors' own figure

For the calculation of ease of 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 product with an ease of market access index below 75% is considered to have a low market access.

Sustained export opportunities identified with low competitor concentration and restricted tariff-wise market access in the USA and in SACU, are identified as products that SACU and the USA should prioritise in the negotiations of the prospective SACU-USA FTA. The assumption here is that SACU and the USA only benefits from the WTO's MFN principle and does not enjoy any other preferential access in each other's market.

## Results and discussions

A summary of the results obtained in Step 1.1 to 3.2 are shown in Table 1. In the USA market, 3 619 products were identified with consistently large and/or growing import demand, from 2013 to 2017, in Step 1.1. A total of 1 060 of the 3 619 products identified with consistently large and/or growing import demand in the USA matched to 1 060 of the 1 391 products consistently exported competitively by SACU from 2013 to 2017. The matched products were drawn from 1 685 matched product-country combinations identified in the USA. From the 1 060 matched products identified in the USA market, a total of 819 were identified with low market concentration, while 526 products were identified with low market access in the same market. From the 819 and 526 matched products identified with low market concentration and access respectively, a total of 407 products were identified with both low market concentration and access in the USA market.

Table 2: Summary of results of products that the USA and SACU should prioritise in the prospective SACU-USA FTA

USA		Total
<b>Step 1.1</b>	Products identified with consistently large and/or growing import demand from 2013 to 2017	3 619
<b>Step 1.2</b>	Product-country combinations consistently competitively exported by SACU (sustainable exports selected in step 1.2, with RCA > 0.7 and RTA > 0 in 2013 to 2017)	1 391
<b>Step 2</b>	Products identified with consistently large and/or growing import demand in the USA from 2013 to 2017 matching SACU's sustainable exports	1 060
<b>Step 3.1</b>	Matched products with low market concentration in the USA from 2013 to 2017	819
<b>Step 3.2</b>	Matched products with low market access in the USA from 2013 to 2017	526
Priority products identified in the USA market (i.e. matched products identified with low market concentration and access in Step 3.1 and 3.2)		407
SACU		Total
<b>Step 1.1</b>	Products identified with consistently large and/or growing import demand from 2013 to 2017	1 892
<b>Step 1.2</b>	Products consistently competitively exported by the USA (sustainable exports selected in step 1.2, with RCA > 0.7 and RTA > 0 in 2013 to 2017)	1 197
<b>Step 2</b>	USA sustainable exports matching consistently large and/or growing import demand in SACU from 2013 to 2017	539
<b>Step 3.1</b>	Matched products with low market concentration in SACU from 2013 to 2017	398
<b>Step 3.2</b>	Matched products with low market access in SACU from 2013 to 2017	162
Priority products identified in the SACU market (i.e. matched products identified with low market concentration and access in Step 3.1 and 3.2)		162

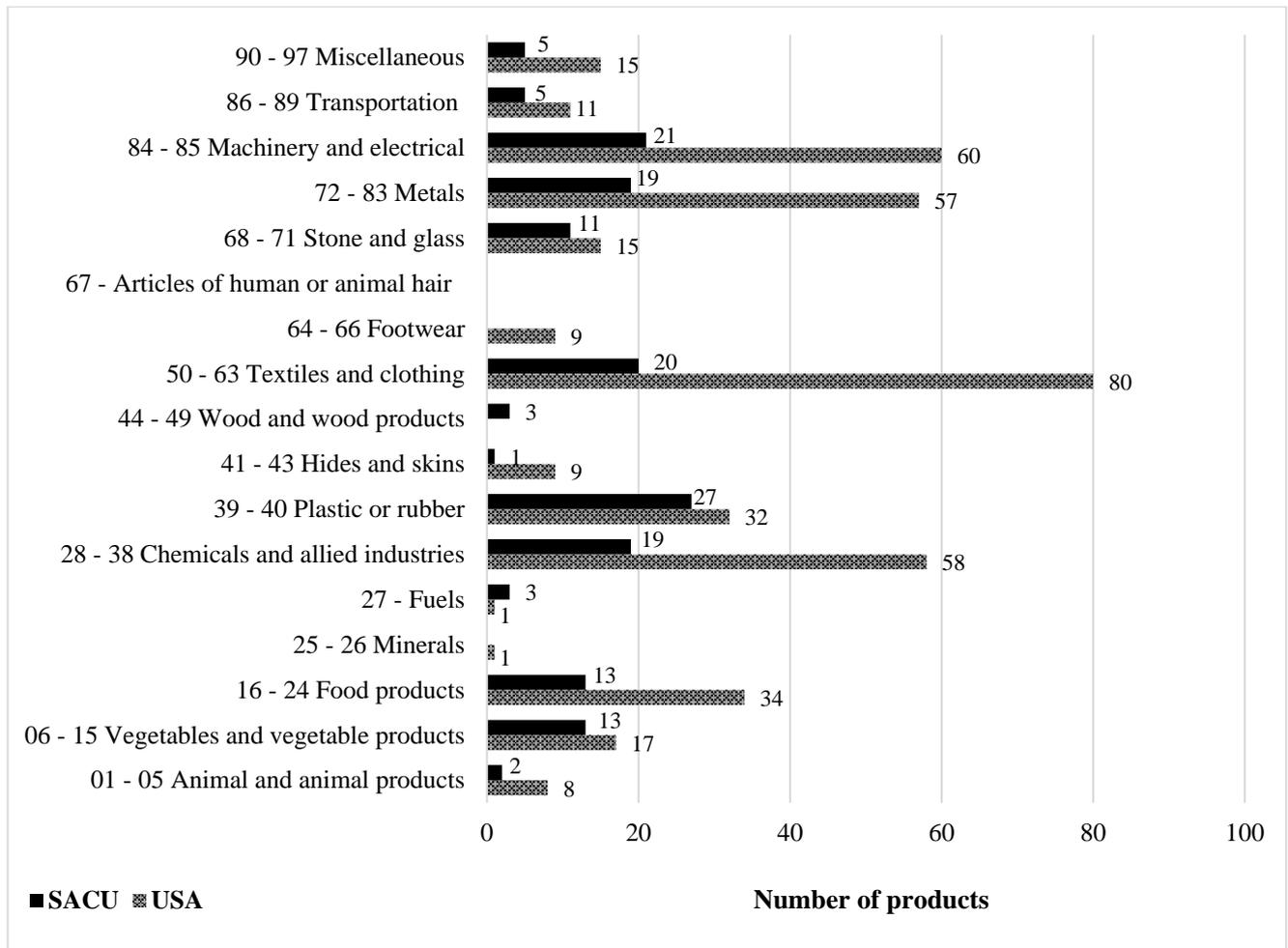
Source: Authors' own table

In the SACU market, 1 892 products were identified with consistently large and/or growing import demand, from 2013 to 2017, in Step 1.1. A total of 539 of the 1 892 products identified with consistently large and/or growing import demand in SACU matched to 539 of the 1 197 products consistently exported competitively by the USA from 2013 to 2017. The matched products were drawn from 686 matched product-country combinations identified in SACU. From the 539 matched products identified in the SACU market, a total of 398 were identified with low market concentration, while 162 products were identified with low market access in the same market. From the 398 and 162 matched products identified with low market concentration and access respectively, a total of 162 products were identified with both low market concentration and access in the USA market.

Products identified with both low market access and concentration in the USA market (407) and in the SACU market (162), are selected as the products that should be prioritised in the negotiation of the prospective SACU-USA FTA. In the case of USA market (see Figure 4), the majority of products that

SACU should prioritise are in the clothing and textiles sector (80), machinery and electrical (60), chemicals and allied industries (58), and metals (57). Similar to the USA market, with the exception of plastic or rubber sector with 27 priority products, most of the products that the USA should prioritise in the SACU market are also identified in the following sectors: machinery and electrical (21); textiles and clothing (20); chemicals and allied industries (19); and metals (19).

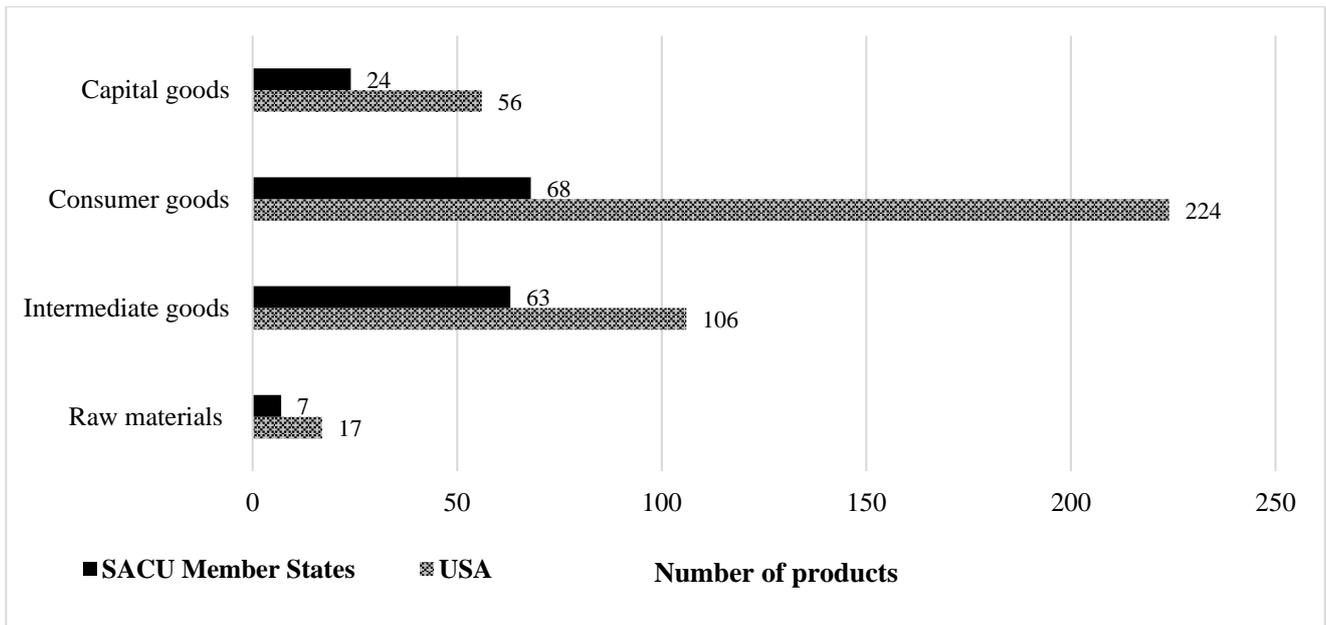
Figure 4: Sector-level (HS2-digit level) results of products that the USA and SACU should prioritise in the prospective SACU-USA FTA



Source: Authors' own table based on WB (2019) HS2-digit level product classifications

The products that the USA and SACU should prioritise in the prospective SACU-USA FTA classified according to Broad Economic Categories (BEC) are shown in Figure 7.8. 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), 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 5: Products that the USA and SACU should prioritise in the prospective SACU-USA FTA categorised by the level of processing



Source: Authors' own table based on WB (2019) HS2-digit level product classifications

Examples of products that the USA should prioritise are shown in Table A1 in Appendix. Most of the products are in the following top five chapters: 39 – plastics and articles thereof; 84 – nuclear reactors, boilers, machinery and mechanical appliances, and parts thereof; 40 – rubber and articles thereof; 73 – articles of iron or steel; 70 – glass and glassware; and 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. In the case of SACU, products that should be prioritised (see Table A2 in Appendix) are in the following top five chapters: 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; 84 – nuclear reactors, boilers, machinery and mechanical appliances, and parts thereof; 39 – plastics and articles thereof; 61 – Articles of apparel and clothing accessories, knitted or crocheted; and 62 – Articles of apparel and clothing accessories, not knitted or crocheted.

## Conclusions and recommendations

This paper contributes to trade policy by identifying products and sectors that SACU and the USA should prioritise in the negotiation of the prospective SACU-USA FTA. The results show that 407 priority products are identified in the USA market while a total of 162 are identified in the SACU market. From the standpoint of both SACU and the USA, the majority of the priority products identified are in the clothing and textile, machinery and electrical, chemicals and allied industries, metals, and plastic or rubber sector. Furthermore, most of the priority products identified are consumer and intermediate goods

while a few priority products fall under raw materials, when classified in terms of the level of processing. This entails that most of the priority products identified are value added products or at least contains a certain degree of added value.

The negotiations of the scope of the product coverage of the prospective SACU-USA FTA should not be exclusively limited to the products and sectors identified in this paper. 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 trade relationships emanating from this deal. 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) has been witnessed. Hence, both the USA and SACU has to benefit from the prospective SACU-USA FTA. 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 possess low market concentration and tariff-wise market access in the USA and SACU markets.

The data analysis in this paper 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 1.1. Hence, 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. However, this lack of consistence in the size and growth of the SACU import market signals that the sustainability of export relationships with SACU may be under threat. Future research can be undertaken, in this regard, to ascertain the causes of such lack of consistence in the size and growth of the SACU import market.

In Step 3.1, 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 Swaziland. The data analysis revealed that some of the HS6-digit level products that South Africa concentrates in these markets possess a RTA less than zero. This shows that South Africa is a net importer of the products and triggers doubtfulness in the manner in which South Africa's exports to these SACU Member States are captured. The anecdotal assumption here is that South Africa's exports within SACU may be possibly being recorded in trade data as exports while in actual fact are re-exports. Hence, such products with a high concentration (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 of the USA in SACU which qualified for further analysis in Step 3.2. The reasons and merits of such a high level of

concentration of import markets of other SACU member States by South Africa also calls for further analysis in future research endeavours.

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## **Competing interests**

The authors declare that they have no financial or personal relationships that may have inappropriately influenced them in writing this article.

## **Authors' contributions**

This paper is based on the third empirical chapter of the PhD thesis of G.M., who constructed the article. E.S. and M.M. were the supervisors, and assisted with conceptual construction of the study.

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## Appendix

Table A1: Examples of products that SACU should prioritise selected from the top 5 chapters

Capital Goods		
Chapter Code	HS6 Code	Description
40	401019	Conveyor belts or belting, of vulcanised rubber, (reinforced with other than metal only or textile materials only)
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; 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 piston engine "diesel or semi-diesel engine" of an output $\leq$ 75 kVA
	852352	Cards incorporating one or more electronic integrated circuits "smart cards"
	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, not reinforced or otherwise combined with other materials, without fittings
	392690	Articles of plastics and arts of other materials of 3901-3914, not elsewhere specified
40	400921	Tubes, pipes and hoses, of vulcanised rubber (excluding hard rubber)
	401194	Pneumatic tyres, new, 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 390110-390130)
	391610	Monofilament of which any cross-sectional dimensions exceeds 1mm
	392069	Plates, sheets, film, foil and strip, of polyesters not elsewhere specified in 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: Authors' own table

Table A2: Examples of products that the USA should prioritise selected from the top 5 chapters

<b>Capital Goods</b>		
<b>Chapter Code</b>	<b>HS6 Code</b>	<b>Description</b>
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	DC motors and DC 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 and earphones, earphones, 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
<b>Consumer Goods</b>		
<b>Chapter Code</b>	<b>HS6 Code</b>	<b>Description</b>
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 no. 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	Filament lamps, electric (excluding ultra-violet or infra-red)
	854430	Ignition wiring sets and other wiring sets of a kind used in vehicles, aircraft or ships
<b>Intermediate Goods</b>		
<b>Chapter Code</b>	<b>HS6 Code</b>	<b>Description</b>
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: Authors' own table

Table A3: Chapter descriptions

Chapter Code	Description
28	Inorganic chemicals and organic or inorganic compounds of precious metals of rare earth metals, of radioactive elements, or of isotopes
39	Plastics and articles thereof
40	Rubber and articles thereof
61	Articles of apparel and clothing accessories, knitted or crocheted
62	Articles of apparel and clothing accessories, not knitted or crocheted
70	Glass and glassware
73	Articles of iron or steel
84	Nuclear reactors, boilers, machinery and mechanical appliances, and parts thereof
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

*Source: Authors' own table*