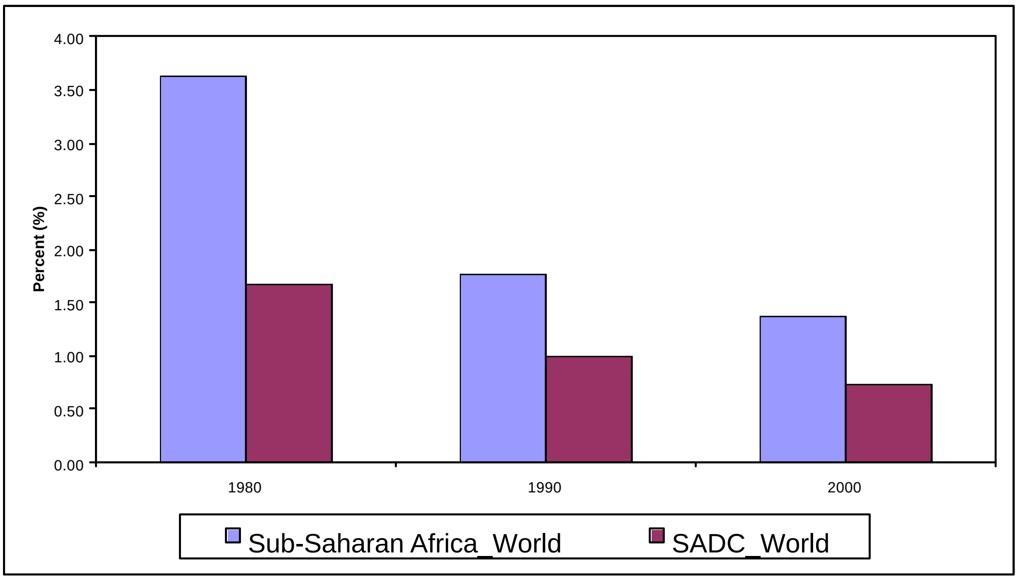
3. Global Trade Integration

INTRODUCTION

A more integrated world economy in which existing trade barriers are further reduced will provide increased opportunities for all countries to take advantage of gains that growth in trade can provide. However, as countries navigate down the stream of globalization, both opportunities and challenges will emerge. Initially, as with all trade liberalization, there will be winners and losers both among and within countries, among both consumers and producers. The challenges lie not merely in the identification of these groups ahead of time but also in the design of multi-dimensional strategies for assisting potential winners and losers alike. If policy makers understand this diversity, they will be able to debate effectively the consequences of specific types of liberalization and discuss possible complementary and mitigating measures.

However, in this age of rapid global integration, SADC's share of world merchandize trade has declined from close to 2 percent in 1980 to less than 1 percent in 2000 (Figure 7).

Figure 7: Sub-Saharan Africa's and SADC's Shares of World Merchandise Trade



Source: Author's calculations and UN Comtrade

Greater integration of SADC economies into the world market could play an important role in the promotion of sustainable development and poverty alleviation in the region. For the SADC region to integrate into the global market, it is imperative that the sources of marginalization are better understood. There are three factors that have contributed to this increased marginalization: (i) the region's weak domestic polices have failed to stimulate growth and have been biased against exports, which led to the decline in the region's share of global exports; (ii) restrictive market access policies in developed countries have limited SADC's export growth, especially in higher value-added products; and (iii) global demand for primary products (SADC's major export) has been considerably weaker than demand for high value-added agricultural products, thereby causing a decline in the region's share of world trade.

In this section, the objective is to bring forth some of the critical issues affecting the SADC region in the process of global integration. These issues center around seven specific questions:

- What are the relative impacts of unilateral liberalization with respect to the world versus regional trade liberalization?
- What do multilateral trade negotiations mean for the SADC region?
- Why participate in multilateral trade negotiations?
- How engaged are the region's policy makers in multilateral trade negotiations?
- What are the major multilateral trade negotiation issues for SADC?
- What are the challenges and limitations to increased engagements and implementation of WTO obligations and commitments?
- What is the way forward in the "Doha Development Agenda"?
- Are preferential trade agreements important for the SADC region?

WHAT ARE THE BENEFITS OF UNILATERAL LIBERALIZATION WITH RESPECT TO GLOBAL TRADE VERSUS REGIONAL TRADE LIBERALIZATION?

The SADC region has made tremendous progress in trade liberalization under the structural adjustment programs in effect since the mid-1980s. Countries in the region have liberalized their exchange rates, privatized marketing boards, decontrolled pricing systems, and removed quantitative restrictions, among other things (ESRF 2003). However, trade liberalization is still unfinished business in the region.

Using a general equilibrium analysis, Diao and Robinson (2003) show potential gains and market opportunities for six SADC countries (Malawi, Mozambique, Tanzania, South Africa, Zambia, and Zimbabwe). Their scenarios identify possible winners and losers from unilateral liberalization of agricultural trade (i.e., elimination of tariffs). For the region as a whole, agricultural GDP declines by 1.12 percent, while economy-wide GDP rises by 0.67 percent. The drop in agricultural GDP is a result of producer price declines, and thus drop-offs in agricultural production, in South Africa and Zambia. This is compensated by a shift of resources to non-agricultural sectors, and the net effect on economy-wide GDP is positive. Elsewhere, agricultural output increases in Zimbabwe, remains unchanged in the case of Malawi, and falls by 1.5 percent in the rest of the countries. Agricultural exports increase by 4.8 percent for all six countries, and imports pick up even more, increasing by 23 percent. It is not surprising that Zimbabwe is the only country that gains, since the Zimbabwean agricultural sector is distorted by high protection. There, significant tariff reduction improves efficiency, resource allocation, and increases employment in the agricultural sector. Overall, unilateral liberalization raises Zimbabwe's agricultural GDP by 1.9 percent and economy-wide GDP by 3 percent. Potential benefits from unilateral liberalization in certain countries, e.g., Malawi, Mozambique, Tanzania, and Zambia, are eroded by disincentives caused by export taxes, export subsidies, parastatal margins, poor infrastructure, and high transportation cost. Unilateral liberalization, in this respect, is an unfinished agenda.

If the six countries engage in regional trade liberalization, agricultural GDP increases by 0.40 percent ($36 million), real total GDP by 0.21 percent, total agricultural imports increase by 4.0 percent, and total agricultural exports rise by 2.2 percent. Even though regional liberalization leads to an increase in real agriculture GDP compared with a decline in the case of unilateral liberalization, total GDP increases under unilateral liberalization. Previously protected agricultural producers suffer losses but are relocated into non-agricultural sectors.

From these scenarios, it is clear that results from unilateral trade in the agricultural sector in some cases hurt the SADC countries, while regional trade liberalization gives much better results. Potential benefits from unilateral liberalization in certain countries, e.g., Malawi, Mozambique, Tanzania, and Zambia, are eroded by disincentives caused by export taxes, export subsidies, parastatal margins, poor infrastructure, and high transportation cost. Unilateral liberalization, in this respect, is an unfinished agenda. Even though regional trade liberalization is favorable, high market transaction costs in the region reduce gains from liberalization.

MULTILATERAL TRADE NEGOTIATIONS AND THE SADC REGION

What do Multilateral Trade Negotiations Mean for the SADC Region?

The new trade negotiations in the World Trade Organization (WTO) offer a multilateral forum for the SADC region to take advantage of a rules-based system for trade and development. Most countries have acceded to the WTO,[6] and the Doha Development Agenda offers opportunities and enormous challenges. New structures of the global trading system and governance can increase the region's market access and clarify its rights in the international trading framework. But they also bring obligations, including giving up a degree of sovereignty over trade and investment. Also, as a consequence of continued global trade liberalization, there will be a continuing erosion of the preferences enjoyed by SADC countries. In the case of agriculture, trade preferences will remain beneficial in cases where MFN tariffs are still exceedingly high.

SADC countries have a lot to gain from a multilateral system based on strong rules, both to protect them against pressures from more powerful countries and to help them improve their own trade and domestic policies. The importance of this system to the region and other developing countries has increased greatly as they have become increasingly integrated with the world economy. Recent trade negotiations, in particular, have given SADC countries more secure access to the developed markets (by reducing the scope of import restrictions) in exchange for better developed country access to the expanding markets of developing countries (through lower tariffs on imports from the developed countries).

Why Participate in the Multilateral Trade System?

The economic literature is by now replete with well documented arguments in favor of increased global trade integration as a key variable for countries to increase economic growth and reduce poverty (summarized in Stryker, Salinger, Plunkett 2003). Ingco and Kandiero (2002) suggest several additional reasons why African countries, including SADC, should participate in the multilateral trade system. One reason is the key preoccupation of most countries in the region with the objective of food security. Realization of this objective requires access on an assured

[6] Of the 14 SADC member countries, all are WTO members except for the Seychelles, which is a WTO observer.

basis to world market supplies, as well as agricultural raw materials for encouraging light manufacturing in rural areas. Most countries in the SADC region have a stake in building an efficient food system and maintaining market stability. Therefore, the region can gain by participating fully in the current WTO discussions aimed at progressive liberalization of agricultural trade.

The multilateral trading system can also provide a framework to improve the region's trade and domestic policy regimes affecting the rural sector. Sectors such as agriculture still account for a significant share of GDP and a major source of employment in most SADC member countries, where over two-thirds of the poor population live in rural areas. Thus, continuing the process of reform of the global trading system to facilitate the adoption of rural sector policies that will reduce/eliminate policy distortions and improve the efficiency of the allocation of scarce resources in these countries can provide significant gains both in terms of consumer welfare and incomes.

Another reason for supporting and participating in multilateral negotiations is that the supply response to structural adjustment depends upon the credibility of reforms. In fact, establishing the credibility of policy measures is at least as important as choosing the efficient policy solution. As shown in many countries, the private sector does not invest if the persistence of the reforms is in doubt. Unfortunately, reform programs have frequently been reversed or halted. Establishing the credibility of policy measures can be achieved through the framework of multilateral rules where member governments can lock in domestic policy reforms. The multilateral system has built-in instruments to prevent policy reversals, thus providing a framework for more credible policy reforms.

The Doha round provides another opportunity for SADC countries to go beyond their unilateral liberalization efforts in exchange for multilateral concessions, or to bind their domestic reforms to an internationally binding framework. RCSA and organizations such as the World Bank and the United Nations, just to mention a few, can help facilitate this process and the development of appropriate trade and domestic policy measures, including the institutional or regulatory framework to effectively implement these measures.

How Engaged are the Region's Policy Makers in Multilateral Trade Negotiations?

In November 2001, the "Doha Development Agenda" emerged from the WTO's Fourth Ministerial Conference. This trade agenda is considered to be the most ambitious multilateral trade round ever (Mbekeani 2002). Negotiations cover a number of critical topics, including implementation, agriculture, services, market access for non-agricultural products, environment, and WTO rules on subsidies, regional trade agreements, and anti-dumping, and dispute settlement. The dispute settlement understanding is to be completed by May 31, 2003. All other areas have to be concluded by January 2005 as a "single undertaking," meaning that the trade round will not be concluded until all members agree on everything.

Most developing countries believe that the Uruguay Round Agreement (URA) did not produce fruitful results (Adhikari 2000). Negotiators from the SADC region and their counterparts from other developing countries signed documents that most of them did not fully understand. As a result, not much progress was made, in particular on market access for textiles. Also, most developing countries did not anticipate the enormous burden of implementing some of the WTO agreements (Hoekman 2002). The Doha Development Round is welcomed as a chance for developing countries to participate effectively, promising potential gains from trade liberalization. Even in light of this optimistic view, there are still several concerns. Though policy makers in the region embrace the negotiations, the interpretations of the Doha ministerial declaration seem to differ among countries (Mbekeani 2002). Confusion regarding commitments by trade ministers and ambiguities in several areas remain. For instance, there is confusion as to whether or not negotiations have started on the issues identified at the Singapore Ministerial (e.g., competition policy, investment, trade facilitation, and transparency in government procurement), and whether or not negotiations on the TRIPS agreement have been launched, under which body, and according to what timeframe. These concerns could explain why negotiators have missed the March 31, 2003 deadline for countries to agree on modalities on agriculture and services.

What are the Major Multilateral Trade Negotiation Issues for SADC?

Issues of interest for SADC countries pertain to market access in the region, policies in OECD countries, the TRIPS Agreement, and special and differential (S&D) treatment provisions.

Regional Market Access

The two most important sectors for SADC and other sub-Saharan countries are agriculture and the labor-intensive manufacturing sector (e.g., textiles and clothing). Although the WTO Agreement on Textiles and Clothing stipulates that all textile quotas be abolished by January 1, 2005, exceedingly high tariff barriers in the sector still exist. In 2001, textiles and clothing product categories in South Africa faced average tariffs peaks around 19 percent and 38 percent, respectively (Cassim and Onyango 2002). High tariffs in agricultural products in the SADC region also impinge on trade. Countries like Zimbabwe have MFN tariff rates as high as 80 percent for some products (Ngqangweni, Kandiero, Gebrehiwet, and Kirsten 2003). The average bound tariff rates by SADC member countries such as Lesotho, Malawi, Mozambique, Tanzania, Zambia, and Zimbabwe are as high as 100 percent or more (Table 4).

Table 4: Uruguay Round Bound Tariff Rates In Agriculture

Country	Average Bound Tariff Rates (%)
Angola	80
Botswana	40
Congo, Dem. Rep.	30
Lesotho	200
Malawi	124
Mauritius	120
Mozambique	100
Namibia	40
Seychelles	..
South Africa	40
Swaziland	40
Tanzania	120
Zambia	124
Zimbabwe	146

Source: Adapted from J. M. Finger, M. D. Ingco, and U. Reincke (1996)

Market access in the area of services is high on SADC's agenda. Due to high protection in the services sector, gains from further liberalization are expected to be high (Hoge 2002, 221). However, liberalization in services sector should be accompanied by effective regulation to ascertain that market failures and infrastructure are addressed. To date, only South Africa, Tanzania, Zambia, and Zimbabwe have competition policies and institutions to support further liberalization in the services sector (Hartzenberg 2002). Nonetheless, the SADC region has made some progress in the financial and telecommunication sectors. The restructuring and closure of some state-owned banks in Lesotho indicate progress in the financial sector (Mathlanyane 2002). Even though there has been some progress in Lesotho, South Africa, Botswana, Mozambique and Malawi, more still needs to be done in the region. Countries such as Angola still la g behind in terms of financial liberalization (Table 5). While the financial liberalization index for Lesotho is as high as 8, Angola scores only 1. A sound financial system will attract more foreign banks, leading to more foreign direct investment. Liberalizing the telecommunication sector has been gradual but promising. From Table 5, one can see that Tanzania and Madagascar have more liberal telecommunication policies compared with Angola, Swaziland, and Zimbabwe. The region has already incurred most of the adjustment costs in this sector. This means that in the future the liberalization process will be at a much faster pace.

Table 5: Liberalization Indices for Selected SADC Countries

Country	Financial Liberalization Index*	Country	Telecom Liberalization Index**
Angola	1	Swaziland	1
Malawi	7	Zimbabwe	1
Mozambique	7	Angola	2
Zimbabwe	7	Lesotho	4
Lesotho	8	Malawi	4
South Africa	8	South Africa	5
Mauritius	8	Botswana	5
		Mozambique	5
		Zambia	5
		Madagascar	9
		Tanzania	9
		Mauritius	5

Source: Mattoo, Rathindran and Subramanian (2001)

Notes : * Index ranging from 1-8 with higher values indicating more financial openness

** Index ranging from 1-9 with higher values indicating more liberalization in telecommunication.

OECD Market Access and Export Subsidies

OECD market access policies, in particular in the agricultural sector, are a major concern for the SADC region. Although SADC wishes to increase market access in OECD countries, protection in still high. For example, the post-Uruguay tariff rate for tobacco is about 350 percent in the

United States; groundnuts and coffee are as high as 550 percent and 30 percent, respectively, in Japan; and maize rates are about 84 percent in the EU (Ingco, Kandiero, and Nash 2003). While SADC exporters must contend with these tariff peaks, tariff escalation is also a major problem for products such as tobacco and meat. The EU has promised to remove tariffs on all products but arms. However, issues relating to food safety and standards are still at the forefront. While the safety of food safety is undoubtedly a real concern, SADC countries are worried that standards will indirectly replace tariffs to restrict trade.

OECD countries' export subsidies policies are another concern. The EU accounts for about 90 percent of the expenditure of total export subsidies in the world. When export subsidies are significant, as in the case of the EU, they have the potential to depress world market prices, leading to lower producer prices received by farmers in the SADC region and other developing countries than they would in the absence of those subsidies. In the short run, the elimination of export subsidies could have an adverse impact on net-importing countries that would have to pay higher prices for imported food products. However, in the long run, SADC countries would likely benefit from elimination of export subsidies as their producers will face more encouraging incentives to boost food production. Of course, the actual impact of elimination of export subsidies in SADC will depend on the policies adopted by individual countries, and on the impact on world prices of a negotiated liberalization package.

Trade-Related Aspects of Intellectual Property Rights

The TRIPS Agreement grants minimum standards for levels of protection to innovators of intellectual property in numerous fields. This Agreement is considered to be the most comprehensive multilateral agreement on intellectual property rights. TRIPS has relevance to drug policies in SADC countries through articles that protect public health and that define patent rights. These articles protect intellectual property rights by excluding third-party use, offering for sale, selling, or importing of patented products for a minimum of 20 years from the date the patent application is filed. Civil claims around breaches of patents put the burden of proof on the defendant. At present, most essential drugs are not patented. In South Africa, less than five percent of the 693 essential drugs are patent-protected. The TRIPS Agreement is thus less of an issue for the vast share of existing essential drugs than it is for new and future essential drugs patented after 1995 (Loewenson 2001). Patent protection leads to increased costs of patented drugs – including new drugs for HIV/AIDS, resistant tuberculosis, and malaria, among others – which puts a significant burden on public health budgets. SADC thus faces a challenge in accessing these new essential drugs at affordable prices.

Special and Differential (S&D) Treatment

Provisions according special and differential (S&D) treatment for developing countries are also an important issue for SADC (SATRN 2002, 23). The rationale behind S&D provisions was based on two main considerations. First, developing countries sought to ascertain that there is equity and fair competition in world markets where structural conditions differ. Second, developing countries sought protection from potential biases created by the stronger negotiating capacity of developed countries in the international trade system.

In addition, least developed countries were promised some measure of technical assistance to increase their capacity to participate fully in global trade negotiations.[7] There is concern among

[7] The record of the U.S. government in contributing to trade capacity building in developing countries is presented in USAID (2003).

developing countries that the S&D treatment agenda in from the Uruguay Round did not meet its goal. SADC member countries – like other countries in sub-Saharan Africa – believe that many promises were made and very little was delivered. Elements dealing with technical assistance and implementation periods will be re-addressed under the Doha Round. For instance, the uniform transitional period for trade reforms to be implemented does not take into consideration the different speeds at which SADC countries can adjust to the new provisions.

What are the Challenges and Limitations to Increased Engagements and Implementation of WTO Obligations and Commitments?

As the SADC region engages in the multilateral negotiations, countries will incur large financial costs as they create the institutions and implement the myriad of standards demanded by the trading system. For some of the countries, implementing WTO obligations would cost as much as an entire year's development budget. Finger and Schuler (2002, 493) note that WTO obligations reflect little awareness of development problems and little appreciation of the capacities of the least developed countries. More fundamentally, it is not clear that all of these standards are ideal for the developing countries, and there is the ever-present danger that they will be used to protect markets.

The SADC region faces many constraints associated with the implementation of such measures as Sanitary and Phytosanitary Standards (SPS) and Technical Barriers to Trade (TBT). The major constraints pertain to lack of resources, infrastructure, and expertise. In trying to help the region cope with the provisions of the SPS Agreement, the multilateral trade system should allow sufficient time for SADC countries to adjust and implement new regulations. To help enforce and assess standards, it is critical that the region request appropriate technical assistance to enhance their expertise. Oyejide (2000) points out that the cost of implementation of some of the WTO agreements, the lack of financial support, the failure of developed countries to deliver the agreed "special and differential" treatment to least developed countries, and the potential problems of some of the WTO agreements may constraint Africa's efforts to improve economic performance.

SADC countries also have to take some precaution when they further open their financial sectors. In principal, financial liberalization offers gains, but costs may be associated with countries opening up to the world. Apart from the demand associated with effective regulation and infrastructure, financial liberalization may increase risks in terms of capital volatility, lead to a loss of autonomy, and increase the likelihood of contagion (Bossone, Hanohah, Long 2001).

Many of these issues are complex and lack of trade capacity in the region is a substantial limitation. The major issues under the Doha Round will require careful and conceptually robust analytical work. Research and analyses that evaluate SADC countries' proposals will be crucial to enhancing the participation of the region.

What is the Way Forward in the "Doha Development Agenda"?

The Uruguay Round Agreement made significant efforts to improve market access conditions. However, the general consensus after the Uruguay Round was that African countries did not go far enough in lowering their bound duty rates (Ingco 1995; Harrold 1996). Therefore, under the Doha Round it is crucial that countries in the SADC region further reduce and move towards greater uniformity across products in their bound and applied tariff rates in order to capture the gains from the liberalization process. The exceedingly high protection rates still prohibit countries in the region from fully capturing the gains from trade. A tariff regime characterized by non-uniformity among products, escalation, and overall high rates has adverse effects on the domestic economy. Among these are implicit taxation of exports, creation of productive inefficiencies, regressive taxation of domestic consumers, and promotion of rent-seeking and corruption. Lowering bound tariff rates in the context of multilateral trade negotiations sends a powerful signal of the government's intentions to permanently adopt an open, pro-export trade regime. In this way, it guides and promotes investment in appropriate sectors and technologies. Overall, the region should give priority to the "traditional" market access issues, including all goods and services, in particular in the agricultural sector and labor-intensive manufactures. However, these market access initiatives should definitely not be in conflict with the region's development initiatives (Helleiner 2000).

With regards to the TRIPS Agreement, an important issue is in relation to HIV/AIDS. Loewenson (2001) suggests five initiatives for SADC countries: (i) governments in the SADC region should make the fullest use of the transition period that has been granted by the WTO to prepare for the consequences of implementation of the agreement; (ii) national drugs policies and regulations should include the right for countries to shop worldwide for the best prices; (iii) regulatory and institutional frameworks need to be set up to foster pharmaceutical companies incentives to continue research into new drugs, while at the same time finding the ways of improving access to drugs by the poor; (iv) focus on alternatives to patenting that promote research and development for drugs needed domestically; and (v) health ministries should request to be involved in the process of revision of patents laws from the beginning.

At the 2002 Southern Africa Trade Research Network symposium, it was suggested that S&D treatment should be binding, i.e. should be fully integrated into the multilateral trade negotiations. However, the region should recognize that blocking the negotiations with S&D conditions that will never be implemented may not be the best way forward. In deciding the kinds of S&D treatment provisions to try to adopt in the negotiations, these countries should also focus on those provisions that would have maximum developmental impact and would not postpone or avoid undertakings necessary for domestic reforms. The optimal solution, however, would be for the region to ascertain that the WTO rules are fair, which in turn would make S&D treatment unnecessary.

OECD countries should deal with the "Uruguay Round hang-over." Tariff peaks and escalation, in agricultural products in particular, should be further reduced. In addition, subsidies should be modified or further reduced as well.

In terms of trade capacity, the SADC region requires support in this new WTO round in several areas including: (i) research and quantitative economic analyses to evaluate the implications of the new trade agenda's trade and sector policies; (ii) assistance in preparing and formulating appropriate negotiating positions in areas such as market access, domestic support, and export competition; (iii) assistance in evaluating trade-offs and options on various new trade issues, including SPS measures and intellectual property; (iv) assistance to enhance local institutional and human resource capacity to implement the pending commitments under the Uruguay Round Agreements; and (v) assistance to strengthen analytical capacity to effectively participate in this new WTO negotiations (Ingco and Kandiero 2002).

This new trade round will provide another opportunity for the SADC countries to go beyond their unilateral liberalization efforts in exchange for multilateral concessions, or to "lock in" their domestic reforms to a multilateral framework. For the WTO agreements to be more effective, they should be complemented by domestic policy initiatives to address SADC's capacity constraints, as well as improve the investment climate and competition policy in the region.

ARE PREFERENTIAL TRADE AGREEMENTS IMPORTANT FOR THE SADC REGION?

SADC countries belong to other preferential trade arrangements, in addition to being part of the WTO accords. The main objective of trade preferences is to help developing countries achieve self-sustainable development. Essentially, preferential treatment through the reduction in tariffs by developed countries is supposed to translate into larger export revenues for developing countries. In addition, market access opportunities are expected to foster investment, technology transfers, employment creation, and income generation. Therefore, the idea of "trade, not aid" has some economic appeal.

Under the WTO three major forms of preferential treatment are permissible: (i) the Generalized System of Preferences (GSP); (ii) special preferential regimes established by developed countries for sub-sets of developing countries (e.g., the EU's Lomé/Cotonou Agreements for African, Caribbean, and Pacific (ACP) countries, the EU's Everything but Arms (EBA) agreement, the U.S. Caribbean Basin Initiative (CBI), and the U.S. Africa Growth and Opportunity Act (AGOA); and (iii) regional free trade areas among developing countries (e.g., SADC, SACU, COMESA, etc.).

With increased global trade liberalization, there is concern that the benefits stemming from preferential arrangements will be undermined as continued reductions of MFN tariff rates will reduce preference margins, i.e. the difference between MFN rates and preferential rates, and increase competition. In the particular case of agriculture, trade preferences potentially remain beneficial, considering that MFN tariffs are still exceedingly high for a number of products. Even though MFN rates are in the process of being reduced, it could take some time before exceedingly high tariffs on some agricultural products are low enough for a complete erosion of the margin of preferences to occur. Empirical evidence from several recent studies indicates that some benefits have been realized from trade preferences, as the margin between MFN and preference rates in agricultural products remains positive (Tangermann 2001). The export value of the ACP preference margin is estimated at approximately 630 million ECU. Beef and sugar have the highest share of the margin. Reducing MFN rates to 28 percent of the pre-UR base would reduce the margin by more than half.

The most important sector concerned by U.S.-SADC relations is the textiles and clothing sector under AGOA. Mauritius and South Africa dominated as the top two sub-Saharan exporters of apparel to the United States in 2001 (Mattoo, Roy, and Subramanian 2002). In 2002, led by foreign investment from Asia and South Africa, Lesotho's clothing exports to the U.S. climbed significantly, leading it to the #1 position. South Africa had modest growth of 19 percent, while Mauritius experienced a negative growth rate of -3 percent. In the particular case of South Africa, other product lines such as motor vehicles and citrus juices have the potential to gain under AGOA (Stern and Netshitomboni 2002).

The main hurdle for SADC countries under AGOA is the issue of rules of origin (ROI) requirements on clothing and textiles that stipulates U.S. or African origin for yarns and fabric. Lesser-developed sub-Saharan African countries eligible under AGOA may use third-party yarn/ fabric suppliers through September 30, 2004, subject to quantitative restriction. The use of ROI is considered protectionist and could be costly for the region. On the other hand, with regard to textiles/clothing, ROI can encourage regional integration if AGOA-eligible countries begin to collaborate in the regional supply of fiber and fabric. Mattoo, Roy, and Subramanian (2002) estimate that non-oil exports from Sub-Saharan Africa to the U.S. would increase by about 43 percent without AGOA's ROI restrictions on access to the U.S. market, 80 percent of which would have been made up of clothing exports. Consequently, AGOA's rules of origin limit the full benefits of the tariff preferences.

However, in making the case for preferences, some economists such as Wang and Winters (1997) caution that trade preferences could have some negative results. They report that preferences may: (i) divert resources to export industries and away from sectors which could assist in sustainable development; and (ii) provide a poor basis for investment because they are temporary and subject to removal at the discretion of the granting country, and therefore do not provide incentive to industrialize.

Overall, preference regimes may hurt industry. The evidence from the Lomé Agreement protocols, in particular, is that preferences have hurt agriculture by promoting dependency both on products (bananas, sugar, and beef) and markets (Ingco, Kandiero, Nash 2003). However, it is important to emphasize that these are not the real issues facing SADC and the rest of sub-Saharan Africa. Rather, the critical issue is what position to take on preferential arrangements. For example, in the case of the EU Economic Partnership Agreements (EPAs) under the Cotonou Agreement, SADC countries will have to compare the benefits they will obtain under Everything But Arms (EBA) with the benefits they will obtain from joining an EPA. They will also need to consider what position to take on the ongoing negotiations in the WTO so as not to compromise their position in the simultaneous negotiations with the EU.