

Exploring South-South Relations: The Case of SADC and Mercosur

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Declaration

I, the undersigned, hereby declare that the work contained in this research assignment is my own original work and that I have not previously in its entirety or in part submitted it at any university for a degree.

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Abstract

This study explores inter-regional relations between SADC and Mercosur. The central problem posed at the outset is "Why should relations between SADC and Mercosur be pursued?" In this problem there exists two separate questions, each one dealing with the regions at hand. The first question asks whether Mercosur is a viable partner in the global political economy and if so, "What possible options are made available through a partnership with Mercosur in the future?" The second question focuses on the Southern African region and addresses concerns surrounding SADC as Mercosur's option for a partner in Africa.

These problems are analysed in the context of the global political economy from the perspective of regionalisation, considering the increased interest and attention this phenomenon is currently receiving in international relations. This study therefore addresses both bilateral and multilateral implications associated with SADC-Mercosur relations, with the importance of market liberalisation as well as the effects of regional integration on the process of globalisation kept in mind.

A descriptive and analytical approach is employed throughout the study. This methodology provides a concise description of both regions. It also allows the study and research to take place on different levels of analysis, looking at the problem from a country-to-country, country-to-region and region-to-region perspective. These levels are extended to include bilateral and multilateral opportunities for the parties involved.

In applying this descriptive methodology various characteristics and attributes of each region are looked at, identifying benefits a regional bloc like Mercosur holds in terms of market size and level of regional development. Various other areas are studied, which explores possible future opportunities for both SADC and Mercosur through improved south-south co-operation. Statistical data is used to further illustrate certain arguments raised and findings made.

The study clearly reveals a broad number of benefits available through enhanced SADC-Mercosur relations. Mercosur holds an immense amount of future potential that would be of great importance in maintaining a sustainable position for developing economies in the future. There are however a number of difficulties too. These emanate primarily from SADC and therefore cast a great deal of doubt on SADC's ability to enter into a partnership with Mercosur. Considering the current situation, a more viable option would be SACU. But this option should be pursued with the intention of bringing the rest of SADC on board in the not too distant future. SADC's sheer size and status in Southern Africa is a drawing card in developing south-south co-operation. It would be ideal to develop relations between SADC and Mercosur in a truly inter-regional fashion and possibly even a transatlantic FTA further down the line. This is a vision that should always be on the agenda when pursuing relations with Mercosur.

Opsomming

Hierdie studie ondersoek die inter-streeksverhouding tussen SADC en Mercosur. Vanuit die staanspoor word die vraag, "Waarom behoort verhouding tussen SADC en Mercosur nagestreefte word?" gevra. Die studie spreek binne hierdie verband met twee sub-vrae. Die eerste vraag vra of Mercosur 'n lewensvatbare vennoot in the globale politieke ekonomie is en indien wel, "Watter opsies word vir die toekoms gegeneer deur 'n vennootskap met Mercosur." Die tweede vraag fokus op Suidelike Afrika en spreek kwessies rakende SADC as Mercosur se keuse vir 'n vennoot in Afrika aan.

Binne die konteks van die globale politieke ekonomie word bogenoemde probleme vanuit 'n streeksperspektief geanaliseer, gegewe die toenemende aandag wat die regionalisasie verskynsel tans in internasionale betrekkinge geniet. Hierdie studie spreek gevolglik beide die bilaterale en multilaterale implikasies van SADC-Mercosur verhoudinge aan, terwyl die belangrikheid van markliberalisering asook die gevolg van streeksintegrasie vir die globaliseringsproses in gedagte gehou word.

Die studie volg deurgaans 'n beskrywende en analitiese benadering. Daardeur word navorsing op verskillende vlakke van analise moontlik gemaak deur die probleem vanuit 'n land-tot-land, land-tot-streek en streek-tot-streek perspektief te beskou. Deur die fokus op hierdie vlakke word die bilaterale en multilaterale geleenthede vir die betrokke partye geïdentifiseer.

Deur middel van 'n beskrywende metodologie word die eienskappe en potensiaal van beide streke uitgelig, veral met betrekking tot markgrootte en streeksontwikkeling. Teen die agtergrond van verbeterde suid-suid samewerking word ander areas ook bestudeer, met die oog op moontlike toekomstige geleenthede vir SADC en Mercosur. Statistiese data word deurgaans gebruik om sekere argumente en bevindings toe te lig.

Die studie bevind dat uitgebreide SADC-Mercosur verhoudinge etlike voordele inhou. Mercosur hou groot belofte in vir ontwikkelende ekonomieë. Daar is egter ook probleme

binne SADC en plaas dit 'n vraagteken oor SADC se vermoë om 'n vennootskap met Mercosur aan te gaan. 'n Meer realistiese opsie sal 'n vennootskap met SACU wees. Maar hierdie opsie behoort nagestreef te word met die oog op die spoedige insluiting van SADC. Die blote grootte en status van SADC is 'n belangrike faktor in die uitbreiding van suid-suid samewerking. Dit sou ideaal wees om verhoudinge tussen SADC en Mercosur tot op 'n ware interstreekse vlak te ontwikkel met die moontlikheid van 'n toekomstige transatlantiese vrye handelsooreenkoms. Hierdie visie behoort altyd in gedagte gehou te word in die nastreef van verhoudinge met Mercosur.

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To My Father, who provided me with the opportunity to make my dreams a reality, and who has shown me through his life that commitment and passion are prerequisites for rising above mediocrity and achieving excellence.

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List of Acronyms

| | |
|----------|---|
| ASEAN | Associate of South East Asian Nations |
| CET | Common External Tariff |
| CU | Customs Union |
| DRC | Democratic Republic of the Congo |
| DFA | Department of Foreign Affairs |
| DTI | Department of Trade and Industry |
| EU | European Union |
| FDI | Foreign Direct Investment |
| FTA | Free Trade Area |
| FTAA | Free Trade Area of the Americas |
| GATT | General Agreement on Tariffs and Trade |
| GDP | Gross Domestic Product |
| GNP | Gross National Product |
| IMF | International Monetary Fund |
| Mercosur | Common Market of the South |
| NAFTA | North American Free Trade Area |
| PTA | Preferential Trade Agreements |
| SACU | Southern African Customs Union |
| SADC | Southern African Development Community |
| SADCC | Southern African Development Co-ordination Conference |
| SAFTA | Southern African Free Trade Area |
| SAWIS | SA Wine Industry Information & Systems |
| TISA | Trade and Investment South Africa |
| TIPS | Trade and Investment Secretariat |
| UN | United Nations |
| WOSA | Wines of South Africa |
| WTO | World Trade Organisation |

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Chapter 1

Aim, Scope and Method

1.1. Background

Regionalisation is a reasonably common phenomenon in the world today. As part of the process of globalisation countries are integrating and in so doing dividing up into regional blocks. Although market and trade opportunities are not always the driving force behind regional integration, regionalisation is essentially a progressive effort of first extending domestic markets to a regional level as a step closer toward complete market liberalisation.

It is becoming increasingly important for the developing world to follow this route of regionalisation and liberalisation as it is an inevitable process taking place in the global political economy and provides a possibility of greater participation in international markets. In view of this, as part of the natural progression from regional integration, links or partnerships with other countries or regions need to be developed. The choice of a partner is difficult with a number of positives and negatives that must be weighed up against each other. These criteria are considered from both a bilateral and multilateral perspective. Southern Africa, as an active participant in the global economy cannot afford to be left behind in this process that is shaping a large number of the international activities currently taking place.

1.2. Problem Statement

This study takes a detailed look at relations between SADC and Mercosur and the benefits such a partnership would hold for the future. The aim or focus is to address the central problem by answering the question of "Why should SADC and Mercosur develop relations and become regional partners?" In answering this

question each region is looked at with the intention of identifying attributes significant to the other. The types of integration that have taken place in each respective region as well as existing regional agreements are considered. These and other areas looked at are analysed from SADC's perspective in terms of what can be learned from Mercosur and the future potential it hold as a partner.

A great deal of attention is therefore given to Mercosur as a regional structure. But in developing an understanding of Mercosur it is essential that the status of its members and associate members be understood. For this reason, although the focus is on the Mercosur region, the scope of the study is adjusted to include a significant amount of information regarding the dominant economies of Brazil and Argentina.

In an effort to address certain questions and doubts surrounding SADC, additional levels of analysis are included, which look at bilateral relations between South Africa and SACU on the Southern African side and Mercosur. Therefore a number of alternatives are analysed as options for future relations. These are on a variety of levels including country-to-country, country-to-region and region-to-region.

The broad scope of opportunities made available through inter-regional relations is highlighted throughout the study. These are predominantly associated with the direct benefits of bilateral relations and the more strategic multilateral advantages.

There are also a number of Extra-Regional opportunities made available through SADC-Mercosur relations. Mercosur's involvement in the FTAA will ensure its' inclusion in potentially the largest example of regional integration in the world. The implications it will have on Mercosur are astronomical with market access opportunities increasing exponentially in the future. Likewise, the SADC free trade protocol, which should initiate SAFTA by 2008 will offer market access and, more importantly, value added opportunities for the Mercosur members.

Both Mercosur and South Africa have trade agreements with the EU and intend extending them by developing an FTA. This is another avenue in which extra-regional opportunities can be pursued. The common goal South Africa and Mercosur have in creating an FTA with the EU could act as a basis for developing extensive extra-regional opportunities in the future for all three of the regions involved.

1.3. Method

A descriptive and analytical approach has guided the research. Therefore a method of describing each region as well as the potential benefits of enhanced relations between the two, together with statistical data to illustrate certain arguments raised, is applied.

A variety of literature sources were used from recognised publications, journals, the Internet as well as reports from seminars and conferences held on the subject. Interviews were conducted with economic representatives based in Argentina and Brazil from Trade and Investment South Africa (TISA). An Internship at the South African DTI in Pretoria helped add a great deal of substance to the study. Exploring various trade-related issues between SADC or SACU and Mercosur added a practical dimension to the research conducted, expanding the knowledge accumulated and therefore contributing to the significance of the study.

1.4. Chapter Outline

Chapter 2 gives an outline of each region, which essentially serves to highlight the lessons to be learned from the Mercosur experience. Although it is clear that regionalisation is an evolutionary process, of which Mercosur is currently on a completely different level of evolution to SADC, it certainly does provide an excellent example of regional integration for the developing world.

Not only does Chapter 2 serve to distinguish between the two and point out to areas where SADC is lacking in terms of integration, its description of each region identifies the potential Mercosur holds and the future opportunities it has to offer as a partner.

Chapter 3 takes a broader, more strategic position in identifying opportunities made available through SADC-Mercosur relations. Relations with Mercosur can contribute toward improving the position of members from both SADC and Mercosur in the global arena. It will thus be a progressive step toward maximising the benefits of globalisation through multilateral activities. These activities are associated with south-south initiatives, merging economic and political thoughts and allowing the developing world to participate and compete effectively. Chapter 3 therefore focuses on a more visionary approach toward relations with Mercosur, and one that follows the current multilateral trend of the global political economy.

Extra-regional opportunities associated with SADC-Mercosur relations are also mentioned in chapter 3. These are opportunities that arise through agreements Mercosur has with other regions and countries or possible future agreements that may materialise. The FTAA is of particular importance. If it manages to develop it has the potential of becoming the most influential economic force of the future.

Chapter 4 deals with the immediate opportunities associated with bilateral trade relations and the possibility of creating an FTA between SADC and Mercosur. In this chapter a number of pertinent facts are discussed that support Mercosur's strong standing as an inter-regional partner. It also addresses the question of whether SADC is a viable partner on the Southern African side or whether SACU may be a better option considering the current situation in each.

Comprehensive case studies of the wine and leather industries illustrate the offensive and defensive alternatives toward an FTA from the perspective of certain industries. They also serve to illustrate relevant points brought up throughout the

chapter. These include the complexity surrounding agricultural issues and the diverse impact certain agreements would have on stakeholders in each industry. The importance of the involvement of industry and the private sector are made clear in the case studies and the concluding sections of chapter 4.

Finally, Chapter 5 draws the information accumulated and arguments outlined throughout the study and pulls them together, establishing a conclusion that pays final attention to the central question posed at the outset. The concluding remarks not only answer the question of "Why Mercosur and SADC?" Together with some recommendations they sketch a possible road to follow with regard to SADC-Mercosur relations for the future.

CHAPTER 2

A Comparison Between SADC and Mercosur: Lessons from the South American Experience

2.1. Introduction

This chapter compares the regional integration that has taken place in Southern Africa and South America. It focuses exclusively on SADC and Mercosur. The two regions have evidently experienced varying forms of regional integration but as the chapter progresses it becomes clear that regionalisation is an evolutionary process in which SADC and Mercosur are at different stages.

Through a brief background the size and historical evolution of each region is described. It is apparent that Mercosur is superior in both size and level of development. Although regional integration is a unique phenomenon differing substantially from region to region, the Mercosur model is a useful example to compare with SADC due to the make-up of its members and its status in the global economy. It is also clear that SADC can learn a great deal from the South American experience of regionalisation.

Existing interaction and relations between Southern Africa and Mercosur are discussed briefly with the intention of gaining some insight into the type of interaction that is taking place as well as the areas where relations are currently emanating from. This reveals a great deal of interaction between South Africa and certain Mercosur members, and very little inter regional interaction between SADC and Mercosur. It thus serves to address an aspect of the central question of the thesis, namely, "Why Mercosur and SADC?"

In conclusion, the more salient points of the chapter are mentioned. Emphasis is placed on the involvement of SADC in bilateral negotiations with Mercosur, which

is supported by the fact that it is in the interest of inter-regional relations, a phenomenon growing in popularity in the global political economy.

2.2. Background: The South American vs. the African Experience

SADC and Mercosur are examples of regional integration agreements in the developing world. Although their membership is made up entirely of developing countries, they both have member countries that are highly influential in the multilateral and global context and carry significant economic and political power that is felt beyond their regions in their respective continents. The combined forces of these countries with the possibility of being bound in regional agreements could create a powerful bond in various areas of the global political economy. The countries that make up SADC and Mercosur as well as the progress that has taken place in terms of regional integrative agreements thus indicates the importance of these two regions in the world today.

2.2.1. SADC

The Southern African Development Co-ordination Conference (SADCC) was the forerunner of SADC. It was established in April 1980 in an effort to reduce Southern African countries' dependence on apartheid South Africa. SADCC was a failure due largely to the very reason it was initiated. The exclusion of the strongest economic and political power in the region created poor cohesion among members who were dependent on South Africa. SADCC also operated in a decentralised fashion. These factors, among others, subsequently lead to its lack of legitimacy in international relations. On 17 August 1992 a transformation from a conference to a community took place with the signing of a treaty in Windhoek, Namibia establishing SADC. (<http://www.sadc.int>) There were ten founding members of SADC. South Africa joined in 1994, followed by Mauritius, the Democratic Republic of the Congo (DRC) and the Seychelles. Currently there are 14 SADC members, Angola, Botswana, the DRC, Lesotho, Malawi, Mauritius,

Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. (McGowen, 1999:254)

SADC covers a land area of 9 274 789 square kilometers. The total population in the year 2000 was 192.48 million and the population growth rate was approximately 2.6%. (Nyirenda, 2000:28) SADC's combined GDP in 1996 was \$178 billion with a GDP per capita of \$953. (Thahane & Van der Merwe, 1999:101-102) These figures, together with social indicators and the dismal amount of foreign direct investment flowing in, indicate that as a region SADC is one of the least developed in the world. As individual countries in the global political economy, certain members of SADC are painfully weak and insignificant, with very little prospects for the future. Therefore SADC offers these countries an opportunity to deal with domestic problems more effectively and participate internationally.

Table 2.1: Basic Indicators for SADC and Individual Member Countries

| <i>Country</i> | <i>Land Area (Km²)</i> | <i>Population (Millions) 1995</i> | <i>Population (Millions) 2000</i> | <i>Population Growth Rate (%) Average</i> |
|-------------------------|-----------------------------------|-----------------------------------|-----------------------------------|---|
| Angola | 1 247 000 | 11.55 | 12.87 | 2.7 |
| Botswana | 585 000 | 1.46 | 1.62 | 3.3 |
| Congo D.R | 2 345 409 | 43.90 | 47.70 | 3.0 |
| Lesotho | 30 355 | 1.93 | 2.15 | 2.6 |
| Malawi | 118 484 | 9.37 | 10.92 | 3.2 |
| Mauritius | 1 865 | 1.12 | 1.16 | 1.0 |
| Mozambique | 790 380 | 15.40 | 19.68 | 3.0 |
| Namibia | 824 269 | 1.69 | 1.73 | 3.0 |
| Seychelles | 455 | 0.08 | 0.91 | 0.7 |
| South Africa | 1 223 201 | 39.48 | 40.38 | 1.9 |
| Swaziland | 17 000 | 0.91 | 1.00 | 2.7 |
| Tanzania | 945 000 | 28.40 | 31.51 | 3.0 |
| Zambia | 752 614 | 9.10 | 10.04 | 3.2 |
| Zimbabwe | 390 757 | 11.53 | 11.67 | 3.1 |
| Total/Ave (SADC) | 9 274 789 | 175.92 | 192.48 | 2.6 |

Source: Nyirenda, M, 2000

Table 2.2: GDP Growth Rates, 1998-2000 (%)

| <i>Country</i> | <i>1998</i> | <i>1999</i> | <i>2000</i> |
|-------------------------|-------------|-------------|-------------|
| Angola | 5.5 | 4.0 | 7.0 |
| Botswana | 7.5 | 4.2 | 6.5 |
| Congo D.R | -3.5 | -5.0 | 5.0 |
| Lesotho | -4.8 | 2.0 | 4.0 |
| Malawi | 3.3 | 4.2 | 3.0 |
| Mauritius | 5.6 | 5.4 | 5.0 |
| Mozambique | 12.1 | 9.0 | 8.0 |
| Namibia | 2.6 | 2.4 | 2.5 |
| Seychelles | 5.0 | 1.2 | 2.0 |
| South Africa | 0.6 | 1.2 | 3.2 |
| Swaziland | 2.5 | 2.0 | 3.0 |
| Tanzania | 4.0 | 4.8 | 5.5 |
| Zambia | -2.0 | 2.5 | 3.0 |
| Zimbabwe | 2.5 | 0.5 | -3.0 |
| Total/Ave (SADC) | 1.2 | 1.4 | 3.5 |

Source: Nyirenda, M, 2000

As is the case of regional integration schemes world-wide, although there may be serious economic benefits, the driving incentive in Southern Africa was a political one. The main objective of regionalisation was, as mentioned, to strengthen weak individual states through co-operation. SADC was thus created with the objective of developing a collective self-reliance in the region, through common economic, political and social values so as to improve the living standards of the people and reduce poverty levels. (Schoeman, 2001:143) Unfortunately, due to a number of factors both external, and intra-regional, SADC has been unable to achieve many of the goals and objectives it has set resulting in wide spread criticism. External factors include the lack of moral support and aid as well the poor perception the outside world has of the SADC region. Intra-regional problems are widespread ranging from conflict to corruption to the lack of unity among SADC members in combating regional problems, not to mention the socio-economic concerns prevalent. Although both are detrimental to SADC, Intra-regional problems are widely regarded as the primary source of SADC's poor performance. As an integrated region the economic and political constraints as well as serious structural flaws within the make up of SADC, including institutional problems and

problems of membership require some dramatic and immediate changes. These issues will be addressed at a later stage in this chapter. It is clear that the greatest setback in SADC is the lack of overall political and strategic vision. (Le Pere, 2000:59)

SADC has however made some progress in terms of integration over the last 10 years. In August 1996 the SADC heads-of-state signed a Trade Protocol to establish an FTA in the SADC region. (Mcgowen, 1999:254) The intention of this initiative was to increase intra-regional trade exponentially, which currently represents a dismal 5% of the total market in the region, and strengthen SADC's collective economy on the international front. (Mondino, 1999:83) The Trade Protocol was signed by 11 SADC members and was implemented on the 1 September 2000. According to the protocol an FTA will be in operation by 2008.

2.2.2. Mercosur

Mercosur is the most ambitious and successful integration process ever attempted in the Americas. It provides a fine example of regional integration in the developing world with a model that developing regions, including SADC, should emulate as far as possible. Although relations and various agreements have existed among South American countries since the 1960's, Mercosur was officially instituted at the Treaty of Asuncion in 1991. The four countries that signed the agreement were Argentina, Brazil, Uruguay and Paraguay (Thahane and Van der Merwe, 1999:96). The agreement served a number of purposes, but most recognised was the fact that the two largest economies in South America, Brazil and Argentina, were finally committed to co-operation. Once again integration took place with major economic benefits for all parties involved. But the incentive that got the ball rolling was political, with the intention of easing the rivalry and tension that was building between the two South American giants.

Since its establishment in 1991, the regional integration model has evolved. In 1996 Chile and Bolivia joined as associate members. Talks are currently underway of including Chile as a complete member, which would contribute substantially to Mercosur's economic power (Rebolledo, 2000:77-79). It was decided upon in its early days that the ultimate aim of Mercosur was to establish a common market. In the natural progression toward this vision, negotiations to develop a Customs Union began in 1995. 1 January 2000 was the date that a fully operational Customs Union was due to be in effect with a Common External Tariff (CET) applying to all four permanent members (Thahane & van der Merwe, 1999:95-97). Although the CET is applicable to majority of products traded, the Customs Union is still not 100% in operation. This is due primarily to recent economic problems in Argentina and disputes between competing industries with regard to certain products.

Excluding its associate members, Mercosur currently occupies an area of 11 863 000 square kilometers, with a population of 213 million and a GDP of \$1.2 trillion. (<http://www.mercosur.org.uy>) The per capita GDP was \$5950 in 1996. These figures increase substantially with the inclusion of Chile and Bolivia. (Thahane & Van der Merwe, 1999:101-102)

Table 2.3- SADC and Mercosur in Perspective

| | <i>Area Size (Million km²)</i> | <i>Population (Millions)</i> | <i>GDP in 1996 (US\$ Bn)</i> | <i>GDP per Capita in 1996</i> |
|---|---|----------------------------------|----------------------------------|-----------------------------------|
| SADC | 9.2 | 192.48 | 178 | 953 |
| Mercosur | 11.9 | 213 | 1230 | 5950 |
| Mercosur + Associate Members | 13.8 | 230+ | 1313 | 5736 |
| South Africa | 1.2 | 40.38 | 127 | 3210 |
| Brazil | 8.5 | 165 | 781 | N/A |
| Argentina | | 36 | 319 | 8970 |

(N/A- Data not available)

Source: Thahane & Van der Merwe, 1999
Mills, 2000:13

Mercosur is clearly far more advanced than SADC in terms of regional integration. Its significance in the global context also far exceeds its counterpart in Africa. This is reflected in the incredible growth in Mercosur trade between 1990 and 1996. Intra regional trade grew 300% while trade with other nations grew 170%. (Mondino, 1999:83) Mercosur is also the worlds 4th largest integrated market after NAFTA, the EU and Japan. (Mills and Mutschler, 1999:9) FDI has increased substantially since it was institutionalised with figures rising ten-fold from \$2.6 billion dollars in 1990 to \$26.6 billion dollars in 1997. More recently Latin America achieved record high figures of FDI for 1999 with Brazil leading the field, second in the developing world only to China (Mills, 2000:14).

In terms of social and political development Mercosur has facilitated a peaceful coexistence between countries that have had a long history of territorial and social conflicts. It has helped to firmly establish democracy in the region and was pivotal in saving Paraguay's democracy on two occasions. More recently, it has been a powerful force in restoring confidence to the region which facing economic downturns due to the Argentinean crisis. With Brazil adamantly supporting policies implemented by the Argentine government, international support has been easier to come by and solutions rapidly implemented. (<http://lanic.utexas.edu>)

2.2.3. Salient Differences between the Mercosur and SADC Regional Integration Agreements

Although both SADC and Mercosur are comprised of developing country members and therefore share a number of similarities, it is clear that a number of significant differences do exist. Mercosur is undeniably a far more advanced form of regional integration and has developed progressively due to a number of reasons. Central to these reasons is the fact that Mercosur was instituted by a small group of members that grew with two additional associate members only once the institution was firmly established. This emphasis on deepening before widening (Mills, 2000:15) together with clear-cut principles and stable rules allowed for a

high level of co-ordination as well as structured organisation. The “unique combination of local pragmatism and flexibility with an Anglo-Saxon style management” as described by Gonclaves (1999:31), has initiated co-operation among the members, which is manifested in both the intra-regional and inter-regional success of Mercosur over the last ten years.

It is essential to note at this stage that all forms of regional integration in different parts of the world are unique. It is difficult to compare one regional integration initiative with another as the diversity of the variables in each region varies dramatically in size and complexity. For this reason one should not be too hasty in drawing a conclusion from lessons learnt from other examples of regional integration and in this case for example, apply the Mercosur model exclusively to Southern Africa. It is however useful to pay attention to those experiences of Mercosur and the initiatives they have successfully implemented and apply them to SADC in the context of regionalisation in Southern Africa.

There are essentially five major differences between SADC and Mercosur. The first striking difference is the lack of symmetry in SADC. South Africa is the regional powerhouse in Southern Africa. In 1996 South Africa was responsible for 71% of the GDP in the region and this has increased to over 75% in recent years. (Thahane & Van der Merwe, 1999:102) Its political and economic strength in the region has lead analysts to describe the region using a “hub and spoke model” with South Africa serving as the hub. (Le Pere, 2000:60) Even though Brazil makes up a large proportion of the Mercosur GDP, Argentina’s contribution serves to counter the weight of Brazil in the region. The asymmetrical composition of SADC has lead to uneven development in the region as well as a high degree of mistrust and animosity among members.

The severe lack of development in Southern Africa has resulted in the inability to create institutions capable of functioning within and controlling the SADC region. This is another area where Mercosur and its members are far superior to Southern

Africa. The institutions in Mercosur are more than capable of implementing and handling policy decisions made and function effectively in such a manner as to facilitate complete regional progression.

The third significant difference between SADC and Mercosur is the level of development with regard to infrastructure, markets, social phenomenon and governments in individual member countries. Here again, levels of development in Mercosur countries far exceed those in SADC countries. In the economic context, a policy convergence around free market principles among member states has clearly contributed to integration efforts in South America. (Mutschler, 2001:154)

Another clear distinction that can be made is the number of members in each regional structure. SADC has 14 members, with an entry requirement that is very unclear when considering the accession granted to the DRC. Mercosur, on the other hand, has four members along with two associate members. As mentioned, this smaller membership has allowed Mercosur to maintain structure and control with more intra regional clarity with regard to rules and requirements. In other words, unlike SADC, Mercosur focused on “deepening before widening” in its approach to regionalisation. (Mills, 2000:15) This distinction also questions the rules of membership in SADC. All members of Mercosur are true democracies while the same can not be said for SADC members. The vagueness in membership requirements as well as the rules and policies instituted by SADC is where the problem of a lack of political and strategic vision emanates from. These areas need to be clarified in order to establish some stability in the region.

Finally, a large part of SADC is either directly or indirectly involved in conflicts. This is an element far removed from Mercosur. The DRC and Angola are examples of conflicts that have crippled the region for a number of years. The conflict in the DRC in particular has drawn in a number of SADC members and is a watershed that has seriously hampered any forward progress in the region. (Spicer, 1999:45) Mercosur is an example of how regionalism has eased tensions

and settled disputes and therefore provides hope for the future of Southern Africa.

(<http://lanic.utexas.edu>)

Although Mercosur has been an undeniable success in terms of regional integration in the developing world, it is important to bear in mind the various external and historical pressures that differ in the shaping of the Mercosur and SADC regions. These have played an important role in the outcome of each. It is also important to note that not all the goals set by Mercosur have been fulfilled. In particular, external trade is still lacking and this needs to be addressed. Critiques of Mercosur insist that the type of regional integration that has taken place have lead to high levels of trade diversion, contravening ideals of liberalisation and globalisation that are promoted by its members. The challenge set before Mercosur is thus to increase exports and improve its competitiveness in external markets. (Yeats, 1998:1-28)

These points that serve to contrast SADC and Mercosur indicate the need to address certain problems for regional development. Many have argued that these are merely “growing pains” (Nevin, 2000:13), if so, SADC needs some hints of advice from the Mercosur region, which has managed to grow and stabilise in almost the same period of time with very few problems along the way. (Zacarias, 1999:71-72)

2.2.4. Inter-Regional Activity: Past Relations between Mercosur and Southern Africa

Although SADC and Mercosur are two prominent regions in the developing world, very little interaction has taken place up to now. Geographical proximity, similar ideologies and values as well as a common position on a number of global issues has done little to overcome the barriers of culture, language and pure ignorance that has deterred relations in the past. This is a situation that is slowly changing as greater interest has been shown in terms of trade and diplomatic interaction with

South American countries. Although they will be addressed briefly in this chapter, these areas will be discussed in great detail in chapters 3 and 4.

Interaction in terms of trade and diplomatic efforts has taken place almost exclusively between South Africa in Southern Africa, and Brazil and Argentina in South America. Diplomatic visits by President Nelson Mandela and his successor, Thabo Mbeki, have become regular in recent years. Nelson Mandela addressed the heads-of-states of Mercosur in 1998. In his speech in Ushuaia, Mr. Mandela expressed the need to enhance relations between Mercosur and Southern Africa in an effort to address the mutual needs of the regions. At the end of 2000 Thabo Mbeki visited Brazil and once again addressed the Mercosur heads-of-state. The fact that a head-of-state outside of Mercosur was invited to attend the summit was indeed something unique, but it was unheard of for a country's head-of-state to address the summit for a second time. Great diplomatic efforts were clearly being made at developing relations with members of Mercosur.

In his visit to Brazil and his address to Mercosur members, Mr Mbeki emphasised the need to develop bilateral relations with Mercosur, particularly Brazil, and South Africa. He however did not put much emphasis on inter-regional relations between Mercosur and SADC and visited the region in the capacity of the President of South Africa and not a representative of SADC. (<http://www.gov.za>)

In terms of trade, as mentioned, majority of existing trade is between South Africa, Argentina and Brazil. The South African global trade strategy, as specified by the South African DTI, has focused a great deal of its attention and resources on developing trade relations with Mercosur. The strategy involves interaction in trade related issues with the hope of creating an FTA between Mercosur, with Brazil as a strategic trade partner, and South Africa, with the probable inclusion of SACU members. (DTI: Global Trade Strategy, 2001¹) There is, at this stage, no

¹ This information is based on a presentation by Peter Draper of the EARU, DTI at the University of Stellenbosch in April, 2001.

indication of including SADC in bilateral trade negotiations with Mercosur. These trade related issues with regard to Southern Africa and Mercosur as well as the global trade strategy of the DTI, together with industry case studies, will be addressed in some detail in chapter 4.

Bilateral trade relations between South Africa (or SACU) and Mercosur as well as diplomatic efforts by Thabo Mbeki to engage Mercosur, and Brazil in particular, do however raise the central question or problem of this thesis. "Why Mercosur and SADC?" and more importantly at this stage, "Why SADC and not SACU or even South Africa?" As indicated at the outset in chapter 1, each chapter of the thesis will serve to answer this question. From the evidence provided throughout this chapter, including the poor state of affairs in which SADC finds itself as well as the past and current interaction that is taking place between Mercosur and Southern Africa, it would seem that relations should continue to be pursued exclusively between South Africa (and SACU) and Mercosur. The difficulties associated with SADC that have created a negative sentiment toward the region and to a large degree hampered inter-regional relations with the likes of Mercosur in the past can therefore be avoided. The focus could fall exclusively on bilateral negotiations aimed at creating opportunities through enhanced relations with an external partner instead of trying to overcoming the problems and issues that SADC would bring into the agreements.

But it is a common fact that the world is dividing up into regional blocks. Not only are foreign negotiators, civil society and businesses in general increasingly demanding to interact on a regional level, but individual countries like South Africa are becoming more reliant on their regions to attract FDI and interest to their countries. Mercosur is after all another region and exploring region-to-region relations between Mercosur and SADC would seem the most logical step to take. South Africa's African initiative drive is another reason to include SADC in negotiations with Mercosur countries.

SACU, a well-developed customs union with a history stretching back to 1910, is also a form of regional integration that could therefore legitimately pursue inter-regional relations with Mercosur. It more than serves the purpose of including South Africa's neighbours. But the question is, "Does it fulfil the same task as SADC in a global context or even measure up in stature to the huge SADC region?" This is an issue that will be addressed in chapters 3 and 4 when other variables are added and the problem is analysed from differing perspectives, giving it the attention it deserves.

3. Conclusion

This chapter looked briefly at the background of each region. It provided an rough outline of SADC and Mercosur and concluded that Mercosur was a far more superior example of regional integration in comparison to SADC.

Although they share a number of similarities in terms of physical size and population, when economic figures are compared or level of integration considered there is a wide disparity between Mercosur and SADC.

The difference between Mercosur and South Africa or SACU is not as extreme. Although the combined size of the Mercosur market and economy far exceeds that of South Africa, other indicators such as levels of development and infrastructure as well as government and institutional capabilities are up to standard with those of Mercosur. This is reflected in the increasing amount of interaction that is taking place between South Africa and Mercosur.

SADC and Mercosur relations are widely considered a waste of time and energy. If the current relations that exist between South Africa and Mercosur members are sufficient, why complicate them by including SADC? After all, South Africa and SACU may be a better alternative when engaging in bilateral negotiations that already have a high degree of complexity without the inclusion of SADC.

SADC, with its sheer size and political force can not be ignored. Not to mention the political weight and increasing international influence it has in terms of regionalism. SADC does not currently reflect an ideal political or economic environment. But through serious efforts initiated by South Africa this could change. It is important to bear in mind that integration is an ongoing evolutionary process. SADC should be given the opportunity to evolve and in the mean time kept on the agenda and used in bilateral negotiations toward enhancing relations with Mercosur.

Chapter 3

The Broader Initiative: Multilateral and Extra Regional Strategies of Regional Integration

3.1. Introduction

Mercosur has been identified as a strategic partner for Southern Africa due to a number of reasons. These reasons include commonly known facts such as geographical proximity and certain similarities in socio-economic development. Although there are differences in terms of regional integration and their respective stages of evolution in the integration process, definite similarities between the two regions can be identified as seen in the previous chapter. Apart from these obvious links with Mercosur, future possibilities and strategies have also contributed to the focus that South Africa and, to a lesser degree, SADC have placed on the region.

The most obvious and immediate advantage of developing relations with Mercosur is trade related. This comes predominantly in the form of bilateral trade relations, where the advantage of market access to a consumer market of 230 million people and increasing economies of scale has exponential benefits for South African producers. This is an area that will be dealt with in greater detail in chapter 4.

The other area that has contributed to the increase in attention toward Mercosur is far more long-term and visionary in nature. It deals with South Africa and its relations with Mercosur in the context of the global political economy. Emphasis is placed on South Africa's position in various international structures and the means to which benefits from globalisation can be accrued and maximised. This broader reasoning or initiative toward relations with Mercosur includes South Africa's multilateral strategy, different areas of regionalism, south-south linkages and trade driven initiatives such as a southern trade belt or the DTI's "Butterfly" strategy with wings spread east and west to South-east Asia and South America

respectively. It is clear that in such a broad initiative an amalgamation or marriage between foreign policy operations and trade strategies have to be made.

This chapter therefore deals with a number of the broader multilateral advantages associated with enhanced relations between SADC and Mercosur. The first sections focuses specifically on South Africa and the way in which the divergent trends in the political and economic spheres have come together in a mutual effort by the DFA and DTI in dealing with Mercosur relations.

The following sections are all interconnected in one way or another in a truly globalised fashion. The style of multilateral diplomacy instituted by the DFA links up neatly with the “Butterfly Strategy” implemented by the DTI. These initiatives are quite obviously a means toward enhancing intra-south relations in an effort to create a south-south co-operation. Extra regional opportunities associated with regional integration between SADC and Mercosur also contributes significantly toward this multilateral co-operation and co-ordination. It is evident that bilateral relations between SADC and Mercosur or South Africa and Brazil or even Argentina will serve not only as the initiator of further broader relations, but will play a significant role in maintaining relations and promoting interaction and co-ordination in the multilateral arena.

The conclusion serves to draw attention to the important points brought to light in the chapter. It focuses on the central question of the thesis, “Why Mercosur?” and identifies the various multilateral advantages and opportunities available through enhanced relations with Mercosur. The issue of whether relations should be truly inter-regional in nature or exclusively between South Africa and Mercosur is also briefly touched upon.

3.2. The Amalgamation of Politics and Economics: Marrying South Africa's Foreign Policy with its Global Trade Strategy

Unlike countries such as Australia, Canada, New Zealand, Ireland and even Brazil, South Africa's Department of Foreign Affairs (DFA) and Department of Trade and Industry (DTI) exist as separate entities. This has created a sense of rivalry between the two government departments and has often lead to a lack of co-ordination in international activities. In many respects this resulted in divergent perspectives between the DFA and the DTI pertaining to international relations during 1994-1999. (Mills, 2000:282-283) The rift that developed between the DFA and the DTI seems to have narrowed dramatically in recent years and the awareness of a greater need for co-ordinated strategies is becoming evident. Relations with Mercosur is one definite area where both the DFA and the DTI have shown considerable interest and pursued a similar strategy.

The nature of the global political economy and rate of globalisation have changed the management of international relations. Issues are far more interconnected and the management of these issues has to be done in such a way as to consider a far broader scope of interest groups than before. Economic power is political power and this can now be gained through a variety of alternatives previously unavailable to most participants in the global economy. The increasingly globalised world in which the phenomenon of regionalism and the multilateral trading system are closely aligned has "increased the importance of economic affairs in a rapidly increasing and interdependent world." (Mills, 2000:189) In this world where trade and investment are becoming increasingly more important for individual countries and their development, economic relations have become more important in foreign policy. It is therefore essential that South Africa addresses this need to better co-ordinate activities in diplomatic efforts of international trade and foreign affairs. This approach by South Africa has been broadly referred to as the reformist approach to the global system in which multilateral diplomacy has been adopted to ensure participation in various global regimes. (Taylor, 2001:59)

South Africa's relations with Mercosur, and particularly Brazil, illustrates the step-by-step or paralleled actions taken in acquiring a strategic partner through bilateral relations which will then help in developing its multilateral strategy. It is therefore clear that in developing relations with Mercosur a dual process of developing a strategic trade partnership and enhancing South Africa's multilateral diplomacy are being made. In many respects the DFA and the DTI are operating in conjunction with each other and there seems to be an amalgamation of political and economic activities by linking trade and foreign affairs issues.

3.2.1. South Africa's Multilateral Strategy

South Africa, much like Brazil and Argentina, is a developing country that is far superior in terms of economic and political strength. For this reason, although categorised as a developing country, in many respects they are forced to participate and compete in the global economy on equal footing with developed nations. This has resulted in South Africa pursuing a type of foreign policy that allows it to "punch above its weight". (Nel, et. al, 2001:2) South Africa's multilateral diplomacy therefore involves a high level of involvement in multilateral institutions in order to play an active role in agenda setting and therefore use these institutions to achieve broader foreign policy goals. (Nel, et. al, 2001:5) Countries such as South Africa, Brazil and Argentina are therefore great promoters of active involvement and dominance of multilateral institutions in the global political economy. These institutions provide a platform for them to address their interests as advanced developing nations as well as represent weaker developing nations on the international front.

Along with Brazil, South Africa has assumed a leadership role in the developing South and, to a large extent, represents the developing world in multilateral forums. A natural partnership has therefore developed between South Africa and Brazil who have found common ground on a number of trade-related and foreign

policy issues as witnessed at the WTO Seattle meeting in 1999. This, together with the expressed interest from both sides of pursuing bilateral trade negotiations and the fact that political leaders from both South Africa and Brazil hold each other in high regard has helped galvanise relations between the two. (DTI, ITIDD: Country Strategy, Brazil, 2000/01:1) South Africa and Brazil's status as the powerhouses of their respective regions will most likely act as the link between Mercosur and SADC, drawing in other member countries.

This cross-regional interest is clearly evident in South Africa's global trade strategy. In the 2001 report released by the DTI Brazil and India are identified as strategic trade partners for South Africa. They are also considered vital economic "hubs" in their respective regions in which South Africa has strategic trade interests. Negotiations with India toward creating an FTA between India and South Africa are in the advanced stage. As for Brazil and the other Mercosur members, negotiations have been taking place with a similar idea in mind. (Global Trade Strategy, DTI-2001) This is dealt with in great detail in chapter 4.

As mentioned, South Africa's bilateral ties with Mercosur, particularly Brazil, and the common ground that exists between them have helped both parties to be more actively involved in multilateral forums. Thus, through consolidation, South Africa and Mercosur countries will improve their collective leverage and therefore improve their position in multilateral decision-making. (Mills, 2000:17) This approach allows South Africa to deal with a number of inter-related issues simultaneously. Domestic issues, which have become intricately inter-twined with international issues can be addressed in an indirect fashion using South Africa's foreign policy and activities in multilateral institutions. This applies to developing world issues too, which South Africa has assumed a great deal of responsibility, for due to the leadership role taken on. (Nel et. al, 2001:1-31) Most importantly, both South Africa and Mercosur countries will be able to use their strong bilateral relations and their increased multilateral influence to address the needs of middle income developing countries. Their combined strength in organisations such as the

WTO and the UN will allow them to participate in shaping the rules of globalisation. Their role of closing the gap between the developed North and the developing South is vital. As a combined force South Africa and Mercosur countries will contribute significantly to increased communication between North and South and therefore play an important part in global governance. (Nel, et. al, 2001:2)

3.2.2. South Africa's Global Trade Strategy: The Trade Butterfly.

Enhancing relations with Mercosur is a major stepping-stone in developing a Southern "trade belt". This is a visionary idea that has its roots in the notion of south-south co-operation (Mills, 2000:17). Minister Erwin (DTI- South Africa) referred to this initiative using a metaphor of a butterfly that has its wings spread from Asia through Southern Africa and Latin America joining the Associate of South East Asian Nations (ASEAN), SADC and Mercosur (Erwin, 1999:15). By developing these trade regions, and further enhancing integrative links between the regions the entire world trade structure could be altered with an incredibly strong southern market capable of influencing global agendas and boosting the economies of those countries reliant on trade.

Although the thrust of the "Butterfly Strategy" does lie in a south-south initiative and in improving the position of the South in the global trade structure, there are direct benefits for South Africa that have been identified and used in promoting this strategy. The "Butterfly Strategy" essentially identified which countries offer the most potential for South Africa in terms of exports and investment. Mercosur, with its huge consumer market and positive growth figures in recent years seemed ideal. ("South Africa and Mercosur: Toward a Strategic Trade Partnership." DTI, 1999)

The DTI's "Butterfly Strategy" spreads South Africa's focus in both South America and South East Asia. It also serves in linking the three regions of

Mercosur, SADC and ASEAN. The strategy therefore promotes inter regional relations. In a world that is quickly dividing up into regional blocks it could be said that such a strategy is not only visionary in the south-south context, but is globally compatible too. In many respects, the “Butterfly Strategy” as envisioned by Minister Erwin will serve to improve the competitiveness of all three regions through inter regional co-operation and thus assist in tackling the negative aspects of globalisation while reaping the benefits such a process has to offer. (Pahad, 2000:55)

3.2.3. South-South Co-operation

Both the DTI’s global trade strategy and the DFA’s multilateral style diplomacy indicate South Africa’s drive toward south-south co-operation. Relations with Mercosur, which to some degree play an important part in both the strategy of the DTI and the policies of the DFA is an essential element in a south-south co-operation scheme. By developing inter-regional relations between Mercosur and SADC major progress will have been made in terms of intra-south co-operation. Stronger bilateral ties between SADC and Mercosur will make the process of incorporating other Southern countries far easier.

As noted earlier when addressing issues related to multilateral institutions, bilateral relations between SADC and Mercosur will improve not only the bargaining position of the countries involved but also the developing countries they represent in general. In the context of south-south co-operation there is greater focus on the humanitarian and socio-economic needs of the developing world. Through the development of inter regional relations between Mercosur and SADC and the enhanced inter regional co-operation, greater pressure can be placed on the developed world for trade concessions. This ties in very closely with the earlier mentioned task of South Africa and Brazil in increasing north-south interaction. The difference here lies in the requests and demands made. As representatives of the South, Brazil and South Africa, or Mercosur and SADC as regional entities,

will place greater emphasis on aid. Thus, although there is still a focus on developmental assistance to ensure sustainable development, social and humanitarian aid are perceived as a greater priority than issues such as trade and market access to developed countries.

Greater attention is therefore placed on solving specific problems of poverty, unemployment, marginalisation, sustainable development, recovery of natural resources and transfer of specialised knowledge and expertise. (Garcia, 1998:104) Although these are problems experienced by the entire developing world including members of Mercosur and SADC, priorities may differ from country-to-country or region-to-region. The developed north seem to believe in assisting in a stage-by-stage process that applies to the entire developing world. Therefore humanitarian aid is regarded as the first step with no or very little other assistance taking place until "first-stage aid" has taken effect. There are therefore a number of needs that countries such as Brazil and South Africa require to be met but can not be addressed in the context of south-south co-operation. For this reason, although south-south co-operation is essential for both SADC and Mercosur countries and their inter-regional co-operation and participation in south-south initiatives is essential, there are a number of issues that have to be dealt with separately. This is where bilateral relations between Mercosur and SADC are of great importance. The inter-regional co-operation that exists between the two serves not only as a stepping stone for further south-south co-operation. The enhanced SADC-Mercosur relations is, in itself, a form of south-south co-operation or "south-south dialogue" (Mills & Mutschler, 1999) which through improved leverage can address common needs and collective interests as members of Mercosur, SADC and the developing south.

3.2.4. Extra-Regional Opportunities in SADC-Mercosur Relations

Opportunities related to SADC-Mercosur relations stretch beyond the benefits gained from bilateral or multilateral advantages. Possible opportunities associated

with other regions or countries external to negotiations or agreements between SADC and Mercosur and which are made available through closer inter-regional relations between SADC and Mercosur are referred to as extra-regional opportunities.

Extra-regional opportunities are most often trade related. For example, looking at Mercosur, it is a massive and growing economic market that provides numerous trade opportunities. The opportunities it has to offer in terms of inter-regional trade integration do however stretch beyond the borders of its members. By developing trade relations with Mercosur, South Africa will benefit from a broader number of other trade agreements and advantages associated with Mercosur. Through this integrated process South African exports will not only be exposed to a market of 230 million people, but they will gain access to other South American markets stretching all the way up to Venezuela. Other markets include the rapidly growing Mexico with which Mercosur has a well-established trade agreement as well as the United States. The 2001 Free Trade Agreement of the Americas (FTAA) talks in Quebec City paid much attention to further developing Latin American economies as part of the process toward an FTAA. This initiative will undoubtedly have major benefits for Mercosur. The Bush Administration has shown special interest in countries such as Brazil, Argentina and Chile to such an extent that some analysts insist that "Latin America is the only place Bush really likes." (Emerson, 2001:35) This preferential treatment by the world's most powerful economy as well as the possibility of an FTA stretching from Alaska in the north to Ushuaia in the south is definitely something South Africa should consider when formulating future trade strategies.

Mercosur also has established trade relations with the EU. Although South Africa already has trade ties with the EU, the relationship existing between the EU and Mercosur merely provides another avenue that could be explored. It also illustrates another one of the many links Mercosur has that South Africa could make use of if trade integration is pursued further. (Abreu, 2000:25)

These issues deal predominantly with trade integration and FTA's. It is a highly complex and debatable topic that is constantly being analysed by government bodies and industries alike. A broad number of issues have to be considered and opportunity costs weighed up. Chapter 4 addresses trade related issues between Mercosur and SADC and the possibility of an FTA between Mercosur and SADC or Mercosur and South Africa. Both the bilateral and extra regional opportunities of an FTA with Mercosur will be made clearer in chapter 4.

At present, relations with Mercosur are pursued almost exclusively by South Africa. With this in mind, extra regional relations would therefore incorporate the rest of SADC. From this perspective it would be interesting to note the extra regional impact of enhanced relations between South Africa and Mercosur. Sceptics such as Stahl (2000:19) insist that relations with Mercosur and the creation of an FTA would be a significant obstacle for regional integration in SADC, especially with regard to trade related issues. According to Stahl, the unnecessary competition introduced by South American producers will cripple smaller SADC members and hamper regional integration in Southern Africa. This may be true and serves as an excellent example of the negative implications or challenges associated with extra regional phenomena.

Relations with Mercosur do however provide a broad number of opportunities and benefits for the rest of SADC. If South Africa does pursue relations with Mercosur and enhances trade integration to such an extent that an FTA is created, the opportunities available to the rest of SADC will be very similar to those of South Africa. The rest of SADC could, through negotiations, "piggy-back" various agreements and integrate themselves into the FTA in a very gradual and phased-in process. This way, through extra regional circumstances, the rest of SADC will not be exposed immediately to the brutal competition posed by certain members of Mercosur and will also be given the opportunity to follow the inevitable trend of globalisation, that being toward a liberalised and integrated trading system. As

mentioned, these trade related issues will be dealt with in greater detail in chapter 4.

Extra-regional opportunities are very much related to the multilateral and south-south initiatives mentioned earlier in the chapter. These will be in the form of bilateral relations between SADC and Mercosur spreading extra-regionally to surrounding countries or to countries with extra-regional agreements. In this way, through interaction and inter regional relations, south-south initiatives develop further along with co-operation and co-ordination in multilateral institutions. SADC-Mercosur relations is an important part of a process of developing relations from bilateral to extra-regional and then eventually onto a multilateral level of south-south co-operation.

3.3. Conclusion

There are a number of reasons why relations with Mercosur are a viable option for both South Africa and SADC as a whole. Opportunities are both direct and immediate as well as long term or visionary.

Like so many other initiatives in the world today, globalisation is a central consideration in pursuing relations with Mercosur. In this respect South Africa's international operations have to join forces and strive toward a common goal in an effort to amalgamate politics and economics.

Relations with Mercosur have, to a large extent, done exactly that. Both policies of the DFA and strategies implemented by the DTI seem to be operating in conjunction with each other. This has helped build stronger bilateral ties with a potential strategic partner, improving the leverage of both South Africa and Mercosur (particularly Brazil) in multilateral institutions. It has also provided a stepping stone toward better south-south co-operation and other extra regional initiatives.

Brazil and South Africa find themselves in a difficult position. Both are middle income countries that have assumed a prominent leadership position in the developing world. They therefore represent the developing world in multilateral forums. Due to the broad diversity of countries involved with varying needs and demands that are made by each country this is an extremely difficult task.

Fortunately South Africa and Brazil have similar interests and have found a common understanding on a number of issues. This is evident in their support of each other in the WTO and their common association and affiliation with various multilateral organisations based in the developing world. The development of bilateral relations between the two has also assisted South Africa and Brazil to perform highly demanding multilateral tasks effectively. They have been successful in improving the communication between the developed north and the developing south, putting various developing world issues on the agendas of recent multilateral gatherings. Their strong influence in the developing world and particularly in their regions have allowed them to address a number of regional and even domestic issues through these multilateral activities.

Trade related issues are prominent in the broader visionary approach toward SADC–Mercosur relations. The “Butterfly Strategy” envisioned by minister Erwin of the DTI is an idea that is at the forefront of broader trade initiatives as well as intra-south co-operation.

In this chapter additional information was provided that is both broad and visionary in nature and therefore offers a slightly different perspective from which to view relations with Mercosur. The information gathered in this chapter therefore contributes significantly to the central question of “Why Mercosur?” by offering a broader multilateral reasoning to the impetus toward Mercosur.

In an indirect fashion, this chapter looked at the argument of whether relations should be pursued between South Africa and Mercosur or inter-regionally between SADC and Mercosur. It is clear that bilateral relations between South Africa and Mercosur and even South Africa and Brazil are far more developed than any inter-regional relations. This is most evident in multilateral activities conducted by South Africa where there is a great deal of co-ordination with Brazil and other Mercosur members.

The prospect of establishing an FTAA gives Mercosur access to a broad expansive market with endless opportunities. Through preferential trade agreements or even an FTA there is a possibility that South Africa and the rest of SADC may gain from these benefits associated with the FTAA. The EU also offers a number of extra-regional opportunities, which are based strongly on the fact that both South Africa and Mercosur have an intention of developing an FTA with the EU.

Many of the issues dealt with in this chapter are of great importance due purely to the process of globalisation. The fact that the world is becoming increasingly liberalised and, in a paralleled manner, divided into regional blocks can not be ignored. There is also a definite increase in interaction between these regions. Southern Africa can not afford to be left behind. If relations with Mercosur are initially pursued exclusively by South Africa, they should be done in such a way as to allow the rest of SADC to “piggy-back” agreements in the near future. Drawing in the rest of SADC in regional integration agreements with Mercosur will be beneficial for all parties from both SADC and Mercosur in the long run. It is, after all, part of the globalisation process.

Chapter 4

The Prospects of a Free Trade Agreement between SADC and Mercosur

4.1. Introduction

This chapter of the thesis maintains a focus on the central question or problem at hand but approaches it from a slightly different angle. There is a definite move from the strategic rationale emphasised in the previous chapter to a more bilateral approach or incentive toward SADC-Mercosur relations. This perspective therefore addresses the obvious and more immediate advantages associated with improved relations between SADC and Mercosur that are usually associated with trade and particularly bilateral trade. These advantages include areas of market access and various forms of co-operation.

The first section of this chapter deals briefly with the phenomenon of an FTA in the context of SADC-Mercosur relations. It therefore emphasises the importance of an FTA in the global economy as well as in the process of liberalisation. A number of Mercosur's attributes are mentioned as well as the direct benefits it holds as a trade partner. Benefits, as mentioned above, include various forms of trade enhancement and co-operation. These areas of Mercosur are focused on in an effort to establish whether Mercosur is a viable trade partner and if it, as a region, has potential for the future.

Current trade relations are looked at in some detail so as to establish the current and potential trade flows between SADC and Mercosur. Bilateral trade between South Africa and Argentina, and South Africa and Brazil are analysed briefly as they are the dominant economies in their respective regions and are therefore most active in terms of bilateral trade. In this respect, the question of whether SADC or SACU should be Mercosur's partner is addressed in some detail.

Two concise case studies on the wine and leather industries of South Africa, Brazil and Argentina help illustrate the effects the FTA would have on specific industries. They also assist in creating an awareness of the sensitivities surrounding the issue of agriculture and its barriers to trade.

The final section deals with the importance of industry and business in the creation of an FTA. The role of the private sector in the process is looked at briefly as well as the various opportunities that are made available through the creation of an FTA.

4.2. Why an FTA?

Many believe that an FTA is a drastic step that, through agreements, ties those parties involved to certain unnecessary commitments. Others argue that if economies are liberalising, why restrict it to certain partners by using an FTA. Their argument is therefore that FTA's hinder the inevitable process of globalisation by restricting the liberalisation of economies to certain selected countries and not to the world in a multilateral fashion.

The fact that opinions differ so drastically with regard to the liberalisation of a country's economy is in itself the primary reason FTA's are of such importance in the global political economy today. South Africa and SADC, as active members of this global political economy, are no exceptions. There is a definite need to liberalise and open up economies to the world. South Africa and rest of SADC can not afford to be left behind while the world continues with inevitable liberalisation. It is up to SADC to open up its economies so as to reap the benefits available to those who adapt adequately. In this respect, an FTA provides an important stepping stone in the globalisation process. The restrictions that an FTA may offer lessens the adjustment shock of complete trade liberalisation. (Stern & Stevens, 2000:2)

Admittedly, an FTA would be a drastic step to take with an economy that has been relatively closed in terms of trade liberalisation. Preferential trade agreements are therefore the most appropriate immediate option taken and they function as the initial step toward an ultimate FTA. This is the more realistic process to follow, with negotiations and further agreements facilitating the establishment of a future FTA.

With a view of integrating and repositioning itself in the global economy, SADC's central focus should be to seek alliances with key countries and regions in the world. (DTI, 1999:1) South Africa has in the past looked primarily to the North for such alliances. But experience has shown that agreements are not always fair and do not entirely meet its needs or the needs of the region. It is obvious that South Africa and the rest of SADC are not a priority for the Northern partners with which trade relations have been negotiated. For this reason a region like Mercosur with a country such as Brazil offers the greatest potential for South Africa and SADC in an FTA.

In terms of SADC's current trade situation, there has recently been substantial progress in the SADC trade protocol. In light of this, the creation of an FTA in SADC seems to be on track and should be in operation in the not too distant future. The South African DTI is therefore in a position to take trade relations further and to establish new trade alliances on behalf of SADC. This will open additional markets to both South African exporters and eventually exporters from the rest of SADC. (DTI, 1999:1)

Apart from the obvious benefits of an FTA such as increased trade through market access and the broadening of economies of scale, an FTA with Mercosur will facilitate a number of other areas of co-operation. These include a smoother transfer of knowledge and expertise; greater openness to foreign firms therefore increasing knowledge, skills and technology transfer and an improved awareness of the opportunities existing through a raised regional profile. (Young, 2000:106)

Developing an FTA with Mercosur will serve to better integrate SADC into the global economy. It is essential that SADC and its members do not get left behind in the realm of international trade. FTA's are phenomena that are increasingly taking place throughout the world. Countries and regions are using these agreements to assist in their liberalisation processes. The huge potential Mercosur holds for its trade partners require SADC to not only engage and enhance trade relations with Mercosur but to lock into an agreement with them. An FTA will thus ensure sustainable economic and trade relations for the future.

4.2.1. Why an FTA with Mercosur?

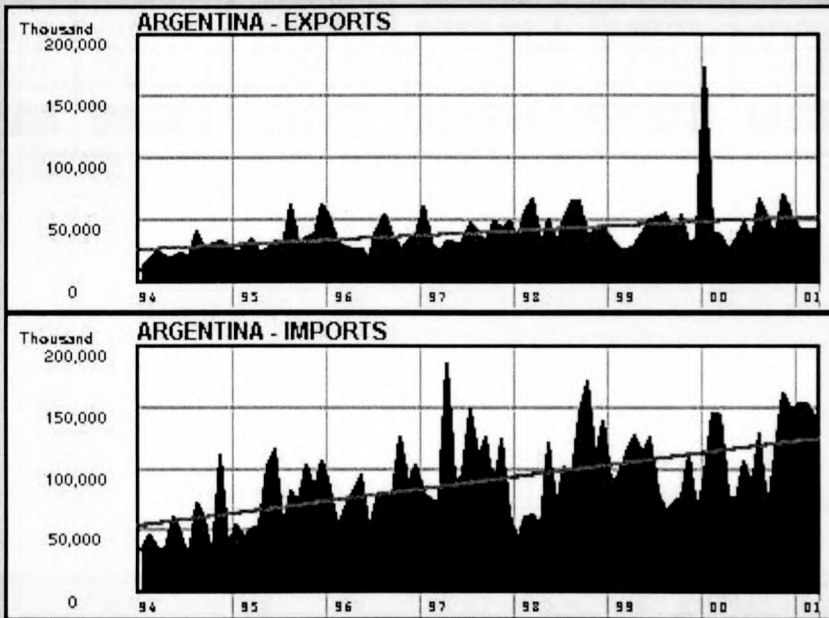
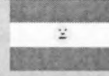
Mercosur has suffered some recent economic set backs lead by Argentina. These including serious debt financing problems that have crippled its financial sector, an increase in unemployment and a negative GDP growth rate, which has literally brought the economy to a stand still. Not to mention the poor political management that has eroded both domestic and international confidence in the ruling government. Never the less, Mercosur is still widely regarded as one of the most promising emerging markets in the world. With a consumer market of nearly 230 million people together with growth and FDI figures, which are admittedly down, but are still positive and comparatively substantial among emerging economies, Mercosur projects an image of a market for the future.

The full potential of Mercosur's market is yet to be realised by foreign traders. From the perspective of SADC and even South Africa the massive South American market is one that is untapped by producers and exporters in this region. The complete lack of trade between the two regions therefore leaves considerable room for manoeuvre. But as mentioned above, merely improving trade relations is not enough. It is important that some degree of commitment is established through an FTA so as to secure trade.

But agreements and commitments to the agreements are not sufficient. A serious increase in trade is required in order to establish firm relations between SADC and Mercosur. Currently, trade exists almost exclusively between South Africa on the SADC side and Brazil and Argentina on the Mercosur side (although there is a small amount of trade between Angola and Brazil too). But even this amount is dismal. There was an average annual growth in total trade between Argentina and South Africa of 30% and a growth of 20% between Brazil and South Africa in the ten-year period between 1988 and 1998. This growth is however from a very small amount. The share of trade with Argentina and Brazil represents around 0.6% and slightly more than 1% respectively of the total value of South Africa's trade. Nevertheless, the growth in trade with Argentina and Brazil does reflect a positive move toward enhanced trade relations with South Africa. The fact that Argentina, Brazil and South Africa are core representative economies of Mercosur and SADC confirms the fact that improved trade relations between these countries will prove to be a progressive move toward an FTA between SADC and Mercosur. (Tips, 2000:7-15)

Figure 4.1 & Table 4.1: Bilateral Trade with Argentina

South African Trade – ARGENTINA



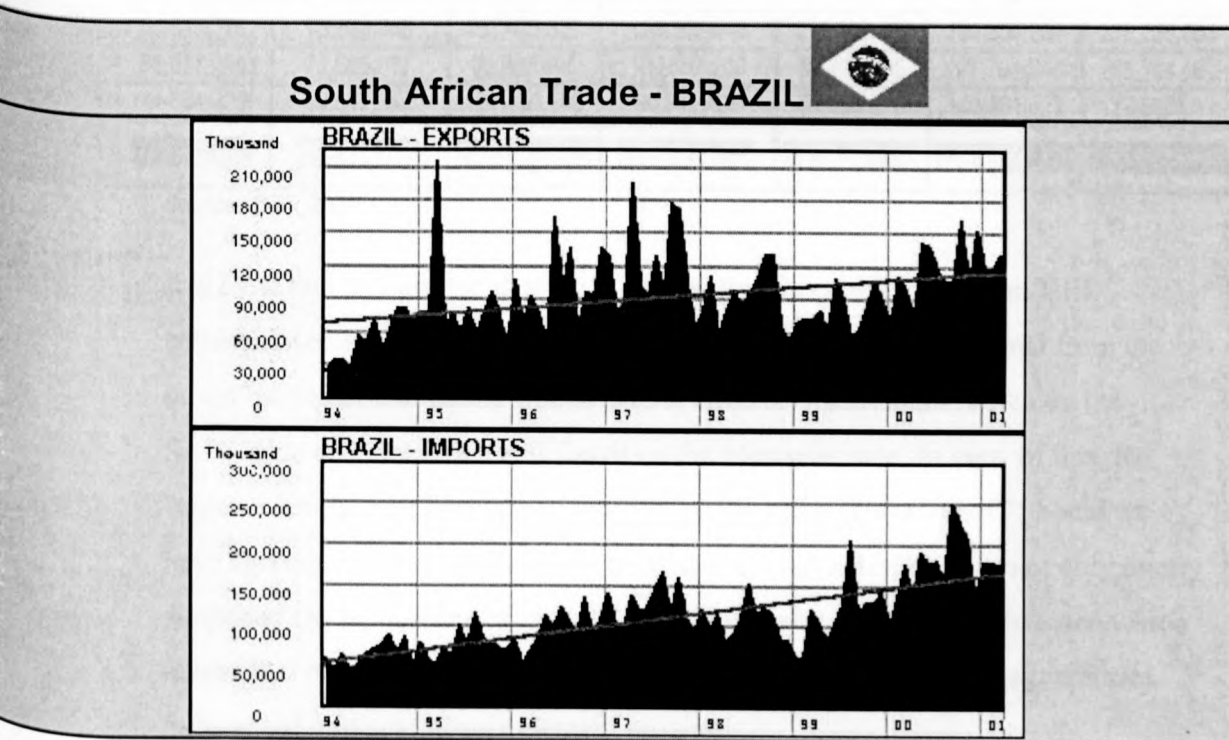
SOUTH AFRICAN EXPORTS (Rand)

| EXPORTS | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|------------|
| JAN | 9,776,317 | 21,709,471 | 49,404,465 | 60,130,587 | 32,698,554 | 32,877,840 | 173,404,053 | 40,809,840 |
| FEB | 17,564,947 | 26,342,787 | 30,958,756 | 29,112,383 | 56,123,172 | 25,317,709 | 39,184,504 | 40,809,840 |
| MAR | 23,295,232 | 33,565,914 | 26,467,889 | 22,228,175 | 66,347,285 | 24,671,796 | 36,313,198 | 41,122,032 |
| APR | 19,449,101 | 22,585,882 | 25,837,716 | 32,498,017 | 28,501,866 | 28,190,082 | 23,664,088 | |
| MAY | 18,994,793 | 25,842,000 | 25,988,138 | 30,256,906 | 49,761,801 | 37,705,300 | 34,196,521 | |
| JUN | 22,398,576 | 32,523,991 | 17,514,155 | 31,210,428 | 28,797,647 | 49,030,212 | 46,945,866 | |
| JUL | 18,802,063 | 24,526,184 | 41,613,454 | 46,490,131 | 49,883,878 | 51,166,505 | 31,581,399 | |
| AUG | 39,164,705 | 60,847,949 | 53,649,868 | 38,016,446 | 64,403,200 | 54,295,783 | 65,193,105 | |
| SEP | 23,485,340 | 29,474,067 | 36,246,263 | 30,304,291 | 63,665,228 | 38,371,167 | 50,663,138 | |
| OCT | 29,609,650 | 35,040,318 | 25,387,894 | 48,627,695 | 33,798,695 | 53,085,822 | 33,351,019 | |
| NOV | 32,560,749 | 37,418,404 | 31,597,906 | 40,874,158 | 43,563,668 | 28,274,593 | 69,786,041 | |
| DEC | 28,439,555 | 60,422,814 | 36,793,362 | 47,898,654 | 42,611,084 | 34,672,269 | 53,675,763 | |
| ANNUAL TOTAL | 283,541,028 | 410,299,781 | 401,459,866 | 457,647,871 | 560,156,078 | 457,659,078 | 657,958,695 | |

| SOUTH AFRICAN IMPORTS (Rand) | | | | | | | | |
|------------------------------|--------------------|--------------------|--------------------|----------------------|----------------------|----------------------|----------------------|-------------|
| IMPORTS | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
| JAN | 34,096,449 | 53,165,883 | 82,852,902 | 79,277,635 | 39,953,820 | 86,548,340 | 95,772,529 | 153,248,170 |
| FEB | 44,883,121 | 43,395,394 | 50,128,658 | 73,913,141 | 59,482,000 | 94,381,423 | 144,589,431 | 153,248,170 |
| MAR | 34,891,291 | 51,280,074 | 68,857,177 | 72,126,297 | 62,618,644 | 112,722,404 | 143,704,587 | 141,967,979 |
| APR | 33,490,680 | 53,481,820 | 79,152,311 | 185,641,157 | 50,666,191 | 126,417,987 | 77,629,105 | |
| MAY | 60,489,522 | 100,808,316 | 94,070,429 | 85,901,524 | 121,003,997 | 109,884,163 | 73,222,547 | |
| JUN | 45,572,110 | 115,541,546 | 47,836,506 | 94,341,162 | 67,069,323 | 125,797,549 | 105,828,627 | |
| JUL | 25,994,430 | 50,047,015 | 74,176,983 | 147,144,889 | 100,772,852 | 80,429,061 | 83,789,509 | |
| AUG | 70,962,356 | 81,049,921 | 79,555,647 | 107,309,374 | 91,784,349 | 65,041,573 | 128,355,811 | |
| SEP | 58,459,880 | 72,338,671 | 76,370,333 | 124,603,653 | 144,824,493 | 72,365,303 | 60,511,594 | |
| OCT | 24,012,351 | 102,505,459 | 125,337,202 | 80,449,892 | 170,772,086 | 76,748,088 | 114,327,872 | |
| NOV | 110,713,078 | 80,679,820 | 85,697,062 | 123,972,555 | 106,527,007 | 111,073,349 | 160,491,816 | |
| DEC | 32,870,244 | 105,478,472 | 102,966,759 | 61,599,457 | 137,838,440 | 59,995,697 | 147,249,342 | |
| ANNUAL TOTAL | 576,435,512 | 909,772,391 | 967,001,969 | 1,236,280,736 | 1,153,313,202 | 1,121,404,937 | 1,335,472,770 | |

Source: DTI, 2001

Figure 4.2 & Table 4.2: Bilateral Trade with Brazil



| SOUTH AFRICAN EXPORTS (Rand) | | | | | | | | |
|------------------------------|--------------------|--------------------|----------------------|----------------------|----------------------|----------------------|----------------------|-------------|
| EXPORTS | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
| JAN | 24,444,218 | 77,308,735 | 106,821,130 | 128,782,094 | 80,216,173 | 69,507,494 | 69,216,504 | 117,484,489 |
| FEB | 34,865,155 | 76,467,870 | 65,986,968 | 73,111,045 | 111,029,993 | 72,753,972 | 110,321,400 | 117,484,489 |
| MAR | 32,797,710 | 213,992,694 | 91,903,343 | 91,858,327 | 55,821,847 | 71,200,175 | 98,545,755 | 131,302,702 |
| APR | 26,254,235 | 63,039,811 | 75,677,466 | 194,320,572 | 79,825,835 | 80,241,170 | 72,497,408 | |
| MAY | 55,771,596 | 75,729,856 | 48,698,795 | 101,839,930 | 96,165,540 | 58,961,715 | 141,256,473 | |
| JUN | 48,768,199 | 58,473,247 | 163,257,700 | 91,891,663 | 84,057,231 | 108,541,028 | 138,063,369 | |
| JUL | 71,136,690 | 80,786,241 | 98,752,570 | 128,809,057 | 96,530,945 | 90,150,508 | 115,562,468 | |
| AUG | 40,573,509 | 56,310,685 | 137,090,905 | 91,143,927 | 109,266,052 | 53,599,126 | 106,459,906 | |
| SEP | 60,884,598 | 77,224,533 | 60,671,581 | 175,660,338 | 129,898,974 | 62,570,571 | 107,780,258 | |
| OCT | 81,589,087 | 95,910,284 | 96,226,319 | 169,928,521 | 130,458,389 | 85,422,570 | 161,049,568 | |
| NOV | 80,521,810 | 73,757,559 | 90,790,333 | 104,011,141 | 66,612,655 | 107,495,079 | 100,543,503 | |
| DEC | 67,599,750 | 46,403,489 | 135,411,903 | 63,806,684 | 48,459,104 | 87,037,834 | 152,257,631 | |
| ANNUAL TOTAL | 625,206,557 | 995,405,004 | 1,171,289,013 | 1,415,163,299 | 1,088,342,738 | 947,481,242 | 1,373,554,243 | |
| SOUTH AFRICAN IMPORTS (Rand) | | | | | | | | |
| IMPORTS | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
| JAN | 58,969,263 | 78,707,145 | 82,389,497 | 139,333,868 | 118,749,449 | 59,780,062 | 97,882,007 | 179,002,346 |
| FEB | 43,713,728 | 56,002,242 | 52,299,605 | 100,640,837 | 94,885,298 | 63,478,029 | 135,877,674 | 179,002,346 |
| MAR | 64,274,024 | 53,704,068 | 69,002,166 | 95,233,450 | 115,135,988 | 120,438,859 | 176,271,287 | 173,765,652 |
| APR | 42,842,629 | 69,751,141 | 83,230,667 | 135,572,831 | 78,531,180 | 102,815,915 | 133,685,313 | |
| MAY | 50,622,027 | 61,457,791 | 111,516,889 | 116,387,760 | 90,450,446 | 80,444,870 | 190,486,637 | |
| JUN | 63,083,655 | 99,714,624 | 95,275,639 | 121,303,853 | 110,961,796 | 103,301,006 | 175,780,681 | |
| JUL | 70,320,196 | 72,369,816 | 123,300,691 | 145,128,990 | 150,685,432 | 127,441,581 | 180,420,286 | |
| AUG | 75,430,084 | 114,093,832 | 104,560,093 | 166,798,859 | 111,038,750 | 204,536,795 | 153,595,569 | |
| SEP | 88,179,821 | 83,651,436 | 85,416,238 | 110,026,397 | 121,446,703 | 115,252,364 | 248,866,164 | |
| OCT | 63,615,370 | 78,509,848 | 133,473,332 | 159,585,648 | 115,089,132 | 130,304,294 | 225,225,908 | |
| NOV | 86,637,946 | 72,685,017 | 86,982,996 | 109,857,265 | 82,776,155 | 127,781,646 | 205,594,196 | |
| DEC | 44,634,320 | 68,597,648 | 106,460,140 | 90,341,406 | 82,596,870 | 140,491,329 | 129,588,091 | |
| ANNUAL TOTAL | 752,323,063 | 909,244,608 | 1,133,907,953 | 1,490,211,164 | 1,272,347,199 | 1,376,066,750 | 2,053,273,813 | |

Source: DTI, 2001

It is clear that an increase in trade is needed for the establishing of an FTA between Mercosur and SADC. Even if it is not naturally inter-regional from the outset but rather emanating from bilateral trade between South Africa on the SADC side and Argentina and Brazil on the Mercosur side. In view of this, the “chicken-or-the-egg” scenario described by Carvalho (2000:94) of “Should we have agreements to create trade, or trade to create an agreement” is not only overly simplistic but is, to some extent, no longer applicable. The egg has hatched which means that negotiations seem to be in place soon to be followed by agreements. Substantial trade is the only element missing.

The lack of traditional trade between the two regions, or even between South Africa and Mercosur members, requires additional efforts to be made in order to improve trade. An FTA cannot exist on agreements only, trade is necessary to start and maintain agreements reached. (Macedo, 2000:95) The opportunity costs are therefore relatively high but, on the other hand, given the narrow extent of existing trade relations, it is possible to pursue a more daring approach to trade liberalisation with Mercosur as possible damage would be comparatively small and therefore manageable. (Cleary, 2000:41) An FTA is not only viable but is a realistic option to pursue that has a broad number of benefits involved.

4.3. The Current Situation and Future Opportunities of Bilateral Trade Flows between SADC and Mercosur

As indicated above, current trade does not represent the true potential of either the SADC or Mercosur regions. Many more opportunities still need to be exploited, especially in the context of FTA Negotiations.

Table 4.3: Trade Balance between SADC and Mercosur

| | <i>1994</i> | <i>1995</i> | <i>1996</i> | <i>1997</i> | <i>1998</i> | <i>Growth</i> |
|---|-------------|-------------|-------------|-------------|-------------|---------------|
| <i>SADC Imports from Mercosur</i> | 722,059 | 791,763 | 747,485 | 929,905 | 725,037 | 1.7% |
| <i>SADC Exports to Mercosur</i> | 476,045 | 544,552 | 742,314 | 638,773 | 459,733 | 0.9% |
| <i>SADC Trade Balance with Mercosur</i> | -246,014 | -247,211 | -5,171 | -291,132 | -265,304 | |

Source: DTI, 2000.

As mentioned, majority of trade taking place between the two regions is in the form of bilateral trade between South Africa and SACU on the SADC side and Argentina and Brazil on the Mercosur side. SACU accounts for approximately three-quarters of SADC's existing trade with Mercosur.

Table 4.4: Aggregate Trade Flows Between Mercosur and SACU and the rest of SADC, \$'000 1995

| | <i>Mercosur</i> | <i>SACU</i> | <i>Rest of SADC</i> | <i>Rest of the World</i> | <i>Total</i> |
|--------------------------|-----------------|-------------|---------------------|--------------------------|--------------|
| <i>Mercosur</i> | 17,746 | 760 | 201 | 80,174 | 98,881 |
| <i>SACU</i> | 718 | 0 | 2,530 | 25,281 | 28,529 |
| <i>Rest of SADC</i> | 197 | 440 | 272 | 11,303 | 12,211 |
| <i>Rest of the World</i> | 89,208 | 30,721 | 8,782 | 5,393,992 | 5,522,702 |
| <i>Total</i> | 107,870 | 31,920 | 11,784 | 5,510,750 | 5,662,323 |

Source: DTI, 2000

The lack of traditional trade between countries from both regions can be attributed to a number of factors. These include a poor understanding of culture, the language barrier and pure ignorance from both sides, not to mention that in a north-south polarised world South American countries were regarded as staunch competitors with African countries in winning over support from the north. But in terms of accessibility in international trade, the fact that Mercosur countries have had relatively closed economies for a long time also contributed to the poor trade interaction between the two regions. In comparison to South Africa, there is still a high degree of protection from foreign exporters to Mercosur countries. The high Common External Tariff (CET) is an issue that even Chile is unwilling to assume, hence their continued status as an associate member which allows them the freedom to offer a lower tariff on certain selected goods.

Protection does not only exist in the form of tariffs or duties. There are a number of non-tariff barriers that offer a high degree of protection to local industries. Brazil, which is undoubtedly the most dominant economy in the region, is the primary culprit of this form of protection. As a developing country it insists on a number of prerequisites and requirements that are sometimes so extreme that they are likened to the stringent European economies. These include reference pricing, import licensing, cascade taxing and a number of others that will be highlighted in the wine and leather industry case studies in the next section. (DTI, ITIDD: Country Strategy Brazil, 2000:4)

An FTA will undoubtedly raise the current level of trade. Bilateral trade agreements will alter market access barriers. In so doing, these agreements will essentially address areas of current trade, potential trade as well as trade restrictions. Within the realm of SADC and Mercosur, these restrictions may differ quite substantially and a number of other limiting factors may pose a problem. Mercosur and SACU on the other hand have broadly similar tariffs (Mercosur being slightly less open) making negotiations far easier and the process of forming an FTA relatively less complicated when compared to other recent FTA negotiations with the likes of the EU. (Stern & Stevens, 2000:14-20)

The elimination of tariffs and other barriers will boost trade through both trade creation and trade diversion. Obviously trade diversion is not ideal but it is a reality when such an agreement exists, whereby preferential market access is granted bilaterally as opposed to multilaterally. South Africa and SACU are less likely to be effected by diversion due to their lower general tariffs at present. But other SADC members and Mercosur members will most likely be subject to trade diversion. This is not completely foreign to Mercosur. Critics were quick to point out that the massive increase in intra-Mercosur trade could be attributed almost entirely to trade diversion. This may, to a large extent, be true but the fact remains that bilateral trade agreements and FTA's are a means to drastically increase trade. ("Mercosur with an Emphasis on Brazil", 2000:18-24)

As recent bilateral and multilateral negotiations have indicated, the issue of agriculture and its barriers is of primary importance. Bilateral trade negotiations with Mercosur are no exception. In negotiations toward an FTA between SADC and Mercosur much will hinge on decisions made with regard to agricultural barriers and the flexibility of parties involved in this issue. Experience has shown that this is a very sensitive subject and one that will need time and effort to arrive at a mutual understanding. The intricacies of this problem are evident to some extent in the case studies to follow. They look at the wine and leather industries both of which produce processed agricultural goods.

The opportunities available through an FTA are not only in the form of market access and enhanced trade. Various areas of co-operation and even collaboration are likely to come about as a result of agreements reached. These areas of co-operation will be most beneficial in industry-to-industry relations or business-to-business operations and will involve the transfer and sharing of knowledge and technology in industries such as mining and agriculture. Co-operation and possible collaboration in the future will help ensure the sustainability of these industries in the highly competitive global economy.

4.3.1. SADC or SACU as a Partner with Mercosur

Ideally, negotiations toward an FTA should be between SADC and Mercosur and would therefore be truly inter-regional in nature. But, due to a number of reasons highlighted throughout this chapter and earlier chapters, the creation of an FTA between SADC and Mercosur is not entirely viable at this point in time. This may however change in the near future as problems in SADC are solved and the region becomes more integrated.

The prospect of creating an FTA between SADC and Mercosur stimulates a great deal of debate from a broad number of interest groups differing drastically in opinion. It is believed that an FTA would initiate greater competition for South African producers in the SADC market and in so doing benefit consumers. (Abreu, 2000:25) Although this may be true, this argument is limited, as Stahl is quick to point out that the added competition posed by Mercosur producers will in fact erode smaller SADC country's preferences in the South African market. Their inclusion would therefore be an obstacle to the SADC free trade protocol. (Stahl, 2000:87)

With the lack of traditional trade between SADC and Mercosur the costs of integration are incredibly high. It is doubtful whether SADC and its members even

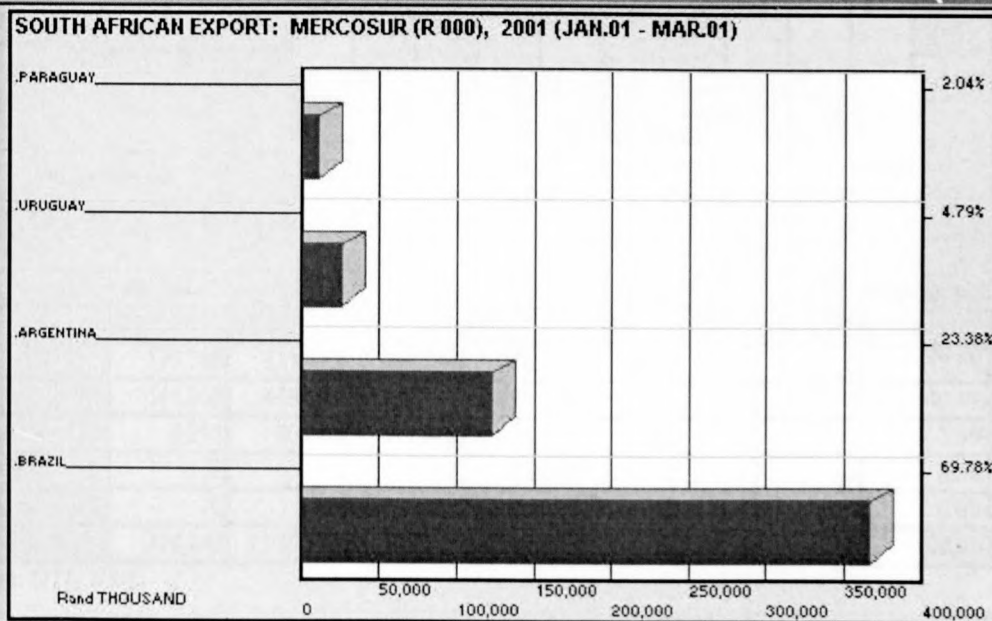
have the resource capacity to negotiate an FTA with Mercosur and the fact that an FTA with Southern Africa is low on the list of priorities of Mercosur indicates that little assistance can be expected from that side. (Macedo, 2000:95-96)

As mentioned earlier in the chapter, trade exists almost exclusively between SACU in Southern Africa and Argentina and Brazil in Mercosur. In terms of negotiations and growth of trade the pattern is much the same, with negotiations taking place between SACU (represented by the South African DTI) and Mercosur (with an emphasis on Brazil). There is a widespread consensus that, due to these evident facts, the focus should be on the creation of an FTA between SACU and Mercosur and not SADC and Mercosur.

Figure 4.3 & Table 4.5: South African Total Exports to Mercosur

South African Trade by countries - Total Trade

South African Trade - EXPORT: MERCOSUR (R 000)

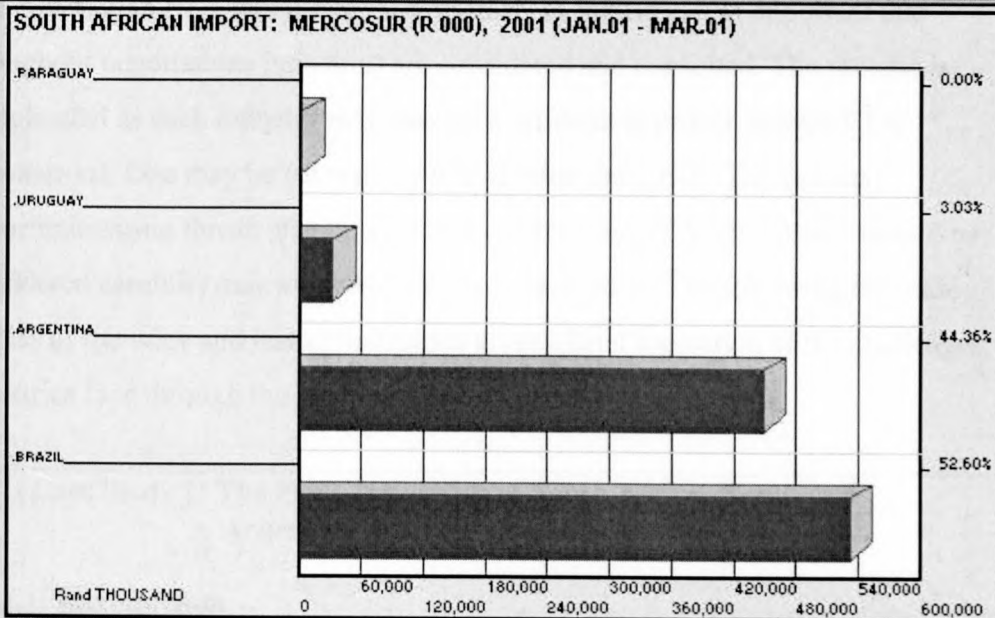


| MERCOSUR (R 000) | EXPORT: | | | | R a n k | | | Proportion 2001 | | Growth p.a. |
|------------------|---------|---------|-----------|-----------|---------|------|--------|-----------------|--------|-------------|
| | MAR.01 | 2001 | 2000 | 1999 | 2001 | 2000 | Change | %Total | Cum. | Annualized |
| Total Trade | | | | | | | | | | |
| .BRAZIL | 131,303 | 366,272 | 1,373,554 | 947,481 | 1 | 1 | 0 | 69.8% | 69.8% | 6.7% |
| .ARGENTINA | 41,122 | 122,742 | 657,959 | 457,659 | 2 | 2 | 0 | 23.4% | 93.2% | -25.4% |
| .URUGUAY | 15,983 | 25,144 | 49,089 | 51,545 | 3 | 3 | 0 | 4.8% | 98.0% | 104.9% |
| .PARAGUAY | 731 | 10,720 | 32,007 | 33,108 | 4 | 4 | 0 | 2.0% | 100.0% | 34.0% |
| .FALKLAND IS | 0 | 0 | 50 | 136 | 0 | 0 | 0 | 0.0% | 100.0% | 0.0% |
| ALL.Countries | 189,139 | 524,877 | 2,112,658 | 1,489,929 | 6 | 6 | 0 | 100.0% | 100.0% | -0.6% |

Source: DTI, 2001

Figure 4.4 & Table 4.6: South African Total Imports from Mercosur

South African Trade - IMPORT: MERCOSUR (R 000)



| MERCOSUR (R 000) | IMPORT: | | | | R a n k | | | Proportion 2001 | | Growth p.a. |
|------------------|---------|-----------|-----------|-----------|---------|------|--------|-----------------|--------|-------------|
| | MAR.01 | 2001 | 2000 | 1999 | 2001 | 2000 | Change | %Total | Cum. | Annualized |
| Total Trade | | | | | | | | | | |
| .BRAZIL | 173,766 | 531,770 | 2,053,274 | 1,376,067 | 1 | 1 | 0 | 52.6% | 52.6% | 3.6% |
| .ARGENTINA | 141,968 | 448,464 | 1,335,473 | 1,121,405 | 2 | 2 | 0 | 44.4% | 97.0% | 34.3% |
| .URUGUAY | 5,211 | 30,644 | 111,079 | 35,389 | 3 | 3 | 0 | 3.0% | 100.0% | 10.4% |
| .PARAGUAY | 0 | 13 | 5,539 | 15,489 | 4 | 4 | 0 | 0.0% | 100.0% | -99.0% |
| .FALKLAND IS | 0 | 0 | 3 | 1 | 0 | 0 | 0 | 0.0% | 100.0% | 0.0% |
| ALL.Countries | 320,945 | 1,010,892 | 3,505,367 | 2,548,351 | 6 | 6 | 0 | 100.0% | 100.0% | 15.4% |

Source: DTI, 2001

It is important to note that, as a customs union, Mercosur will most likely negotiate an FTA as a single regional block. It would therefore be useful to have SADC on board from the start in an effort to create an inter-regional FTA. Evidence shows that this may not be feasible as yet, and that as an alternative SACU will be used. If this is the case, it is imperative that the interests of SADC are considered and are kept close at hand throughout negotiations. This involves certain criteria and rules of origin which should allow SADC to "piggy-back" certain agreements and join the process in the not too distant future. An inter-regional FTA between SADC and Mercosur should always be on the agenda as the vision of the negotiation process.

2

4.4. The Effect of an FTA on Selected Industries

The effect of an FTA will differ from industry to industry. It is important that throughout negotiations industries are considered and consulted. The process is complicated as each industry may assume a different approach toward FTA negotiations. One may be offensive while another defensive. The various opportunities and threats that emerge as a result of the FTA agreements should be considered carefully and weighed up against each other. The following two case studies of the wine and leather industries gives a brief indication of the challenges industries face through the creation of an FTA:

4.4.1. Case Study 1: The Wine Industries of South Africa, Brazil and Argentina

4.4.1.1. Introduction

An increase in world wine consumption together with a trend toward *New World Wines* has increased the demand for wines from countries such as Australia, Chile, Argentina and South Africa. This focus on *New World Wine* producing countries has created a vast number of opportunities in international markets. But the globalisation of the wine industry has also revealed certain weaknesses or flaws in the operations of some of these countries. Where both Argentina and South Africa

are world giants in terms of production, they have not fared as well as the likes of Australia and Chile, who have embraced international wine markets, exporting a large percentage of their production and are now the undeniable leaders of *New World Wine* producing countries.

As this report reveals, efforts are being made to rectify many of these problems. One way in particular is the creation of a Free Trade Area (FTA) between South Africa and Mercosur. By creating an FTA areas of co-operation can be explored as well as the possibility of market accessibility to a huge wine consuming market that has been largely overlooked by other producers around the world. In this way, enhanced relations in the wine industries of South Africa and Mercosur countries through an FTA will provide all parties involved with an opportunity to improve their position globally and therefore maximise the benefits of globalisation through a more gradual process.

This report analyses the wine industries of South Africa, Brazil and Argentina. It looks at aspects such as production capacity; the focus of production, unique attributes and exports. Future strategies as well as market potential are analysed and compared in the context of the international industry.

The various attributes of each industry are compared with each other so as to identify the various strengths and weaknesses of each industry and to establish opportunities that can be pursued through agreements and co-operation.

A conclusion in the form of a recommendation highlights the more pertinent points of the report and offers a possible approach that could be taken in negotiations toward an FTA with Mercosur.

4.4.1.2. Characteristics of the Brazilian and Argentine Wine Industries

Argentina is regarded as one of the wine giants of the world. In terms of surface area covered by wine producing grapes Argentina is placed in the top 10 in the world. It is the 5th largest producer of wine in the world, producing a staggering 13.500 hectolitres per annum that is predicted to increase in the year 2001 (*see tables 4.7 & 4.8*). This broad surface area together with a substantial production has enabled Argentina to produce a wide variety of wines from low priced bulk wines to high quality premium wines. (Enfias Alimentacion, Oct-Nov. 2000, 92)

Table 4.7: Argentine Wine Production 1990-2001

| | Grapes for winemaking | Wine production | Other | Total |
|------|------------------------------|------------------------|--------------|---------------|
| | Ton | Gross litre | | |
| 1990 | 1 985 949 | 1 403 630 000 | 371 177 200 | 1 774 807 200 |
| 1991 | 2 072 311 | 1 450 027 200 | 151 940 200 | 1 601 967 400 |
| 1992 | 1 889 118 | 1 435 074 500 | 265 221 700 | 1 700 296 200 |
| 1993 | 2 439 888 | 1 447 084 200 | 7 630 400 | 1 523 388 200 |
| 1994 | 2 787 307 | 1 817 291 000 | 157 633 600 | 1 974 924 600 |
| 1995 | 1 994 073 | 1 644 305 500 | 605 582 400 | 2 249 887 900 |
| 1996 | 2 426 260 | 1 268 100 600 | 338 172 500 | 1 606 273 100 |
| 1997 | 1 940 377 | 1 350 029 200 | 599 321 100 | 1 949 350 300 |
| 1998 | 2 356 446 | 1 267 338 200 | 276 833 000 | 1 544 171 200 |
| 1999 | n/a | 1 588 769 600 | 306 137 700 | 1 894 907 300 |
| 2000 | n/a | 1 380 000 000 | n/a | n/a |
| 2001 | n/a | 1 400 000 000* | n/a | n/a |

*Forecast

n/a = not available

Source: WOSA, 2001. (www.wosa.co.za)

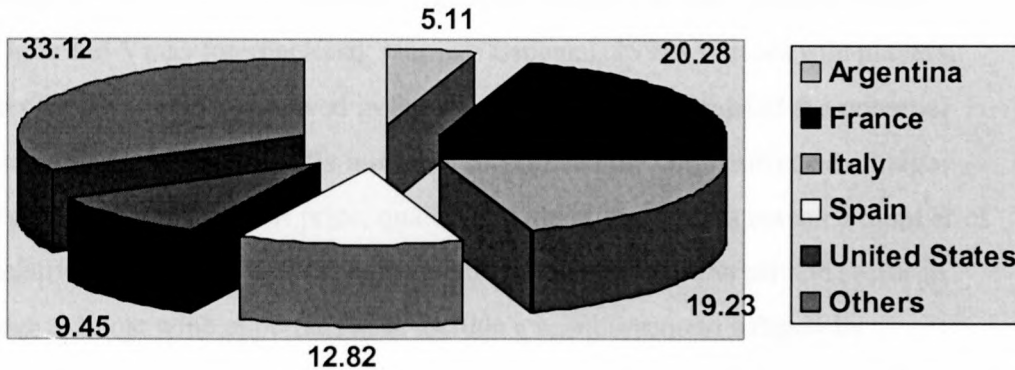
In comparison to South Africa, Argentina's wine industry is much larger. Argentina's surface area covered by wine producing vines is more than double that of South Africa and in terms of total annual production, South Africa is ranked 6th, producing 8.702 hectolitres per annum (*See Table 4.8*). (Enfias Alimentacion, Oct-

Nov. 2000, 92) But these figures do change quite dramatically when comparing international exposure, foreign market penetration and general export figures. This will be discussed in greater detail when dealing with trade flows at a later stage in this report.

The Brazilian wine industry is a relatively new and small industry. Wine production in Brazil reached 272.3 million litres in the year 2000. (South American Business Information, 2000) Due to the size of the industry, the domestic market absorbs close to the entire Brazilian production. In fact, the large and growing consumer wine market in Brazil has made it a significant importer of wines from countries such as Italy, Portugal, Chile and France. (www.trademap.net) The growing popularity of wine consumption in the country has however led to a number of new initiatives aimed at increasing wine production. These include various marketing strategies by both local and foreign producers in Brazil, the increase of grape processing capacities of various existing wineries and funding from various sources such as developing banks used to improve facilities and technology as well as to establish new wineries. (South American Business Information, 2000)

Table 4.8: World Wine Production-2000

| | Country | Hectolitres (1000's) | Percentage (%) |
|----------|------------------|----------------------|----------------|
| 1 | France | 53.612 | 20.28 |
| 2 | Italy | 50.847 | 19.23 |
| 3 | Spain | 33.887 | 12.82 |
| 4 | United States | 25.000 | 9.45 |
| 5 | Argentina | 13.500 | 5.11 |
| 6 | South Africa | 8.702 | 3.29 |
| 7 | Germany | 8.495 | 3.21 |
| 8 | Romania | 6.688 | 2.53 |
| 9 | Australia | 6.174 | 2.33 |
| 10 | Portugal | 5.727 | 2.17 |
| 11 | Chile | 4.549 | 1.72 |
| 12 | Hungary | 4.472 | 1.69 |
| 13 | China | 4.125 | 1.56 |
| 14 | Yugoslavia | 4.025 | 1.52 |
| 15 | Greece | 3.987 | 1.51 |
| | Others | 30.632 | 11.58 |
| | Total | 264.422 | 100.00 |

Figure 4.5- World Wine Production-2000

Source: Enfasis Alimentacion, No. 5, Octubre-Noviembre, 2000

4.4.1.2.1. Trends in the Argentine and Brazilian Wine Industries

Historically, Argentina has been a producer of bulk wines. Through the years of military regimes in the 1970s and 80s mass production was a priority together with a great deal of intervention, restricting *cultivars* and quality of the wine produced. Over the last 10 years Argentina has been changing this strategy and has begun producing high quality premium wines. Fine wines currently constitute between 20% and 25% of total production. ("Vinos and Vinas Internacional", Numero Especial, 1998)

Argentina has followed the trend of a number of other wine-producing countries in focusing on red wine production. This is in line with the strategy of penetrating foreign markets where the demand for red wines exceeds that of whites. Locally there is also a shift toward red wines with 60% of the Argentine demand favouring red wine over white wine. (www.wosa.co.za) More specifically, Argentina is constantly striving to perfect its noble varieties of Cabernet Sauvignon, Merlot and Chardonnay as well as those varieties characterised as flavours of Argentina, namely Melbec and Torrentes. Melbec is regarded as Argentina's vinous signature wine variety accounting for 5% of the total vineyard surface area. (Young, 1998)

Although there is a definite drive toward exporting wines to consumer markets abroad, 70% of wine produced in Argentina still goes to the domestic market. (Vinos and Vinas Internacional, Numero Especial, 1998) Various role players, directly or indirectly involved in the wine industry, have realised the potential foreign markets have to offer and have recognised the competitive advantage Argentina has in terms of price, quality and quantity. For this reason a number of initiatives have been established by both government and the private sector in order to boost wine exports. These include a reimbursement subsidy by government that assists in covering tariffs imposed by certain foreign markets and various privately driven joint ventures with wine producers in Europe, the United States and even South Africa. (Pieterse², 2001)

4.4.1.2.2. Market Size

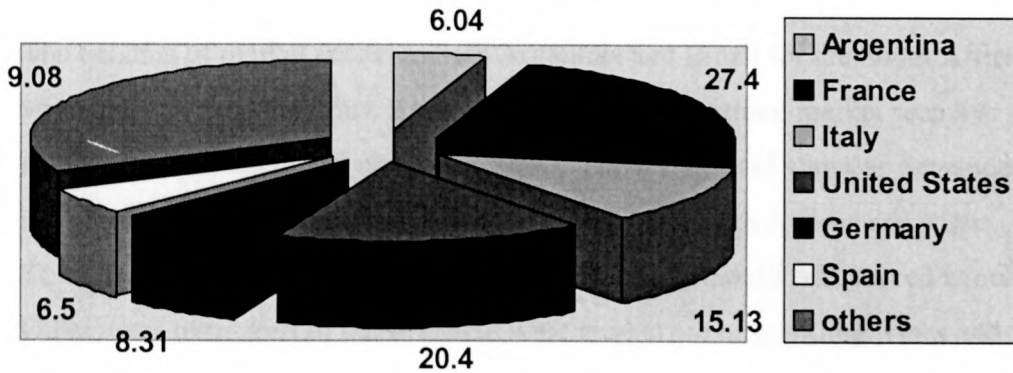
Both Argentina and Brazil have massive market potential. Even though per capita consumption has been decreasing over the last few years in Argentina, it is currently more than 35 litres placing Argentina in 6th position in the world with a total consumption of 13.505 hectolitres (more or less equal to total wine production) (*see Table 3*). (Enfias Alimentacion, Oct-Nov. 2000) Brazil on the other hand has a huge consumer market that is growing every year. With a consistent growth in per capita consumption of between 20% and 30% per year (South American Business Information, 2000) in a population of 170 million people, market potential cannot be ignored. Countries such as Italy, France, Portugal, Chile and Argentina have realised this, and in the case of Argentina have managed to double their wine sales in Brazil in the year 2000. An even more encouraging note for the industry is that much of the increased demand originated from consumers buying wine for the first time, rather than purely an increase in the consumption of existing consumers. (*See Table 4.10*) (www.euromonitor.com)

² This information was obtained from an e-mail interview with Mr. Paul Pieterse, an Economic Representative for Trade and Investment South Africa (TISA) in Argentina. Data supporting this was obtained from www.infojust.com.

Table 4.9: World Consumption- 2000

| | Country | Hectolitres (1000's) | Percentage (%) |
|----------|------------------|----------------------|----------------|
| 1 | France | 34.941 | 15.63 |
| 2 | Italy | 33.820 | 15.13 |
| 3 | United States | 20.800 | 9.31 |
| 4 | Germany | 18.580 | 8.31 |
| 5 | Spain | 14.528 | 6.50 |
| 6 | Argentina | 13.505 | 6.04 |
| 7 | United Kingdom | 8.157 | 3.65 |
| 8 | Russia | 5.900 | 2.64 |
| 9 | Rumania | 5.889 | 2.63 |
| 10 | Portugal | 5.600 | 2.51 |
| 11 | China | 4.388 | 1.96 |
| 12 | South Africa | 4.022 | 1.80 |
| 13 | Australia | 3.472 | 1.55 |
| 14 | Greece | 3.200 | 1.43 |
| 15 | Hungary | 2.945 | 1.32 |
| | Others | 43.786 | 19.59 |
| | Total | 223.533 | 100.00 |

Figure 4.6- World Wine Consumption-2000



Source: Enfasis Alimentacion, No. 5, Octubre-Noviembre, 2000

Table 4.10: Volume Sales of Wine by Major Markets: % Growth 1995-2000

| % volume growth | 1999/2000 | 1995/2000 CAGR | 1995/2000 TOTAL |
|-----------------|-----------|-------------------|--------------------|
| Brazil | 7.0 | 6.3 | 35.7 |
| UK | 4.7 | 4.3 | 23.6 |
| Spain | 4.5 | 4.6 | 25.4 |
| Argentina | 4.0 | 4.6 | 25.4 |
| China | 3.3 | 5.8 | 32.8 |
| Italy | 2.7 | 2.2 | 11.6 |
| Germany | 2.5 | 2.1 | 10.9 |
| France | 1.9 | 0.9 | 4.7 |
| Australia | 1.6 | 2.9 | 15.2 |
| US | 1.0 | 3.2 | 17.0 |
| Russia | 0.8 | 2.4 | 12.5 |
| South Africa | 0.0 | 1.8 | 9.3 |
| Japan | -1.4 | -0.5 | -2.7 |
| Portugal | -2.1 | -0.6 | -3.2 |
| Romania | -3.2 | -5.9 | -26.1 |
| WORLD | 2.3 | 2.3 | 12.2 |

Source: Euromonitor (www.euromonitor.com)

The benefits of market access to both Argentina and Brazil for the South African wine industry are numerous. Access to the growing Brazilian market seems to offer more immediate and obvious benefits. The style of red wines as demanded by the Brazilians is very similar to that characteristic of South African red wines. There is therefore a definite niche market in Brazil for South African red wines. Other areas of interest in the Brazilian wine market are in sparkling wines and wine coolers. (www.euromonitor.com) Once again these are areas to pursue, as the South African wine industry is highly competitive in both these product lines.

Besides those areas mentioned, free trade agreements with Mercosur will give South Africa preferential access to various markets where South Africa can then exercise its competitive advantage particularly in premium red wines and white wines. The competitive force posed by both Argentina and Chile is unavoidable. But, through an FTA, South African wine exports will be on an equal footing with both Argentina and Chile and can therefore compete effectively without tariffs and other barriers that have hindered trade in the past. Therefore, although Argentine red wines are competitively priced, the fact that their peso is pegged to the US

dollar weakens their competitive position. With the exchange rate in favour of South African exports, it will be difficult for producers in Argentina or Chile to better the price/quality ratio that the South African wine industry will achieve there. A premium red wine of South African origin is two-thirds of the price of an Argentine equivalent. In the case of white wines the situation is even more extreme in the favour of South African wines.

The benefits available through an FTA are not limited to market access. Various opportunities of co-operation and collaboration exist. This is particularly evident between the Argentine and South African wine industries, where domestic consumption is huge and can sometimes exceed production. In this case a cost effective alternative is required to substitute for the lack of supply. (Pieterse, 2001)

4.4.1.3. Existing Trade Flows

4.4.1.3.1. South Africa

South Africa's wine industry is one of the largest in the world today. Capacity capabilities, quality of products, cost effectiveness and consumer market potential has placed South Africa in a prominent position among other *New World Wine* producers. But while South Africa is the 6th largest producer of wine in the world, efforts have been slow to globalise the industry resulting in minimal international exposure and poor export performance. Where Italy and France are the top wine producers in the world today, they are also the top wine exporters in the world. South Africa, however, has only recently managed to elevate itself into 9th position representing 2% of world exports. (www.euromonitor.com)

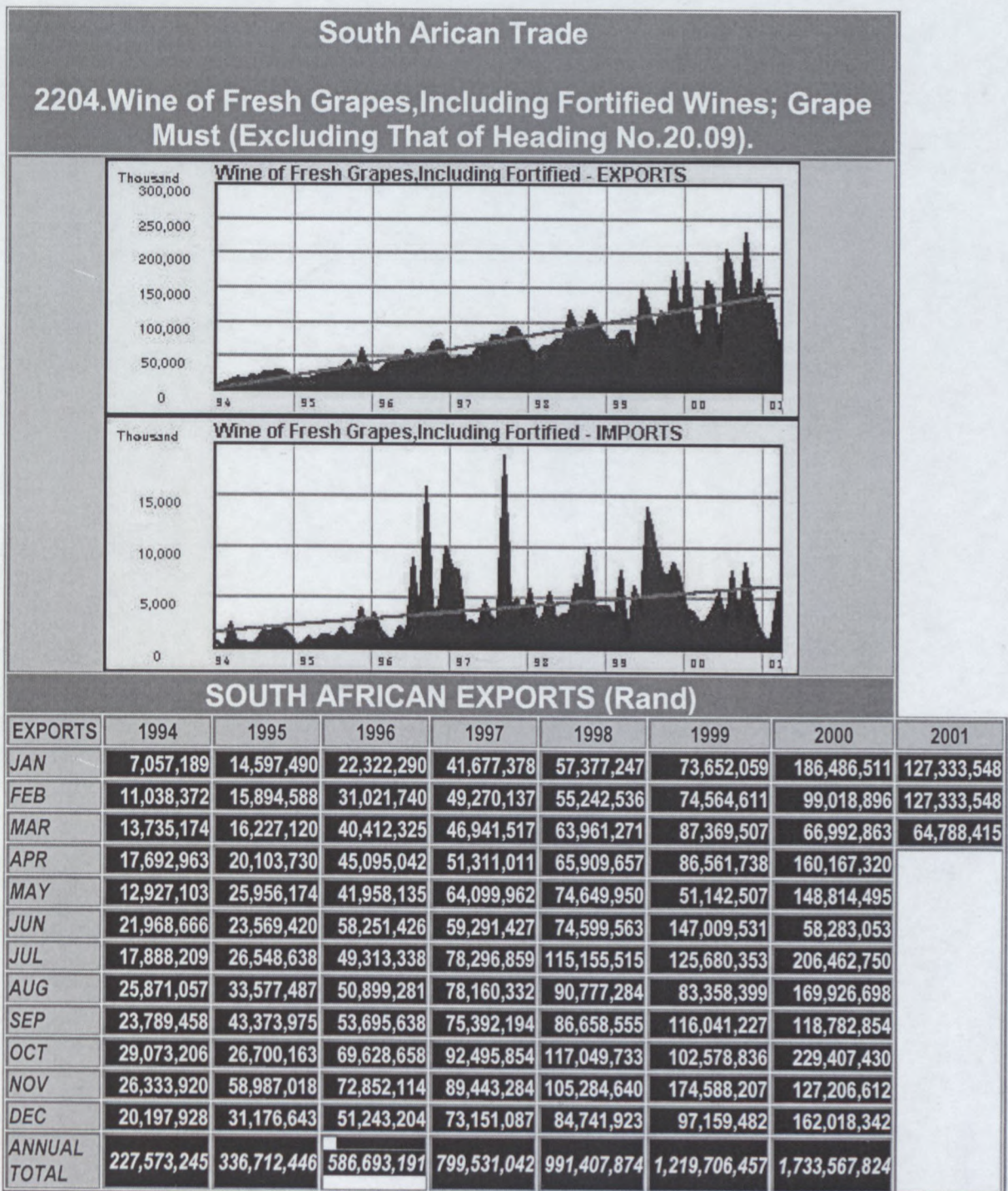
Table 4.11: Global Wine Exports by Country 1996-1998

| | '000 hectolitres | | | % total volume 1998 |
|--------------|------------------|--------|--------|---------------------------|
| | 1996 | 1997 | 1998 | |
| France | 12,990 | 15,737 | 16,446 | 25.1 |
| Italy | 15,115 | 14,319 | 15,570 | 23.8 |
| Spain | 6,729 | 8,679 | 10,249 | 15.7 |
| US | 1,759 | 2,070 | 2,642 | 4.0 |
| Germany | 2,360 | 2,601 | 2,373 | 3.6 |
| Chile | 1,841 | 2,163 | 2,298 | 3.5 |
| Portugal | 1,947 | 2,450 | 2,248 | 3.4 |
| Australia | 1,477 | 1,709 | 1,983 | 3.0 |
| Bulgaria | 1,622 | 1,626 | 1,526 | 2.3 |
| Moldavia | 1,600 | 1,997 | 1,147 | 1.8 |
| South Africa | 996 | 1,086 | 1,184 | 1.8 |
| Argentina | 1,120 | 1,205 | 1,089 | 1.7 |
| Hungary | 1,062 | 1,006 | 1,076 | 1.6 |
| New Zealand | 111 | 131 | 152 | 0.2 |
| Others | 5,147 | 5,769 | 5502 | 8.4 |
| TOTAL | 55,876 | 62,548 | 65,485 | 100.0 |

Source: Office International de la Vigne et du Vin, (www.euromonitor.com)

Recent figures do indicate that South African wine exports are increasing at a steady rate. There was a marked increase in wine exports from year 1999 to year 2000, and the increase from 1994 to 2000 was close to ten fold. Red wines experienced the greatest growth of 15% in the year 2000. This increase can be attributed largely to South Africa's advent into the global political economy and the steady increase in demand, particularly from the European market, which happens to be South Africa's major trade partner. (DTI, 2001) Of the approximate R1.8 billion worth of wines exported in 2000, the United Kingdom absorbed more than 40% of the total, and the entire EU absorbed close to 80% of the total value. South Africa's primary export markets are therefore the United Kingdom, Netherlands, Germany, Sweden and the United States. (www.trademap.net)

Figure 4.7- South African Export/Imports of Wine: 1994- March 2001



| SOUTH AFRICAN IMPORTS (Rand) | | | | | | | | |
|------------------------------|------------|------------|------------|------------|------------|------------|------------|-----------|
| IMPORTS | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
| JAN | 613,003 | 367,446 | 3,491,450 | 7,784,688 | 5,826,717 | 4,179,346 | 3,893,289 | 1,170,613 |
| FEB | 94,589 | 464,123 | 1,670,772 | 7,691,357 | 2,785,954 | 3,175,829 | 3,769,268 | 1,170,613 |
| MAR | 2,477,686 | 1,128,574 | 1,080,417 | 2,598,577 | 3,345,119 | 7,679,159 | 2,527,775 | 5,657,807 |
| APR | 541,787 | 626,166 | 932,684 | 2,779,899 | 5,513,524 | 1,110,652 | 2,986,595 | |
| MAY | 694,991 | 1,371,617 | 2,175,898 | 2,195,014 | 2,887,879 | 6,221,049 | 3,865,957 | |
| JUN | 339,278 | 1,240,643 | 1,284,440 | 4,713,188 | 3,390,380 | 4,027,869 | 5,507,112 | |
| JUL | 820,620 | 976,567 | 8,719,450 | 3,091,241 | 3,454,345 | 13,813,082 | 2,626,865 | |
| AUG | 1,572,403 | 1,923,467 | 2,546,044 | 2,782,063 | 6,425,078 | 10,923,398 | 7,613,670 | |
| SEP | 1,647,278 | 1,185,603 | 15,701,240 | 18,880,818 | 5,462,103 | 8,219,158 | 2,916,698 | |
| OCT | 1,859,897 | 1,486,898 | 3,987,827 | 4,022,440 | 9,976,571 | 6,690,608 | 8,417,495 | |
| NOV | 1,786,727 | 3,926,686 | 4,006,727 | 4,917,056 | 4,279,859 | 8,536,272 | 4,857,920 | |
| DEC | 1,328,076 | 2,179,586 | 9,922,121 | 3,201,799 | 4,306,624 | 7,019,088 | 2,300,038 | |
| ANNUAL TOTAL | 13,776,335 | 16,877,376 | 55,519,070 | 64,658,140 | 57,654,153 | 81,595,510 | 51,282,682 | |

Source: <http://dti.gov.za>

4.4.1.3.2. South African Wine Exports to Brazil and Argentina

South African wine exports to Brazil and Argentina have followed the same trend as general bilateral trade with these countries. Wine exports to Brazil have been minimal and to Argentina close to non-existent. In fact, while Brazilian wine consumption has been increasing in recent years, exports to Brazil from South Africa have been decreasing with an annual growth of -21% between 1995 and 1999. The result being a dismal total of R10 million worth of wine that was exported to Brazil over a seven-year period from 1994 to 2000. (DTI, 2001)

The only existing bilateral trade that does exist between Brazil and South Africa in the wine industry is in the form of small agents located in Brazil with the function of distributing to outlets and hotels spread across the entire South American continent. These agents target smaller estates and wineries, taking advantage of the competitively priced South African wines. Unfortunately, the quantity purchased is often so small that, to avoid problems and delays associated with shipping, the wines are flown out and are therefore sold at a highly inflated price in comparison to that purchased in South Africa.

There are various reasons why the Argentine and Brazilian markets have not been exploited by the South African wine industry to date. Firstly, the same limitations that have hampered general bilateral trade with these countries are evident in the wine industry too. These include cultural differences, the language barrier (Spanish and Portuguese are the languages spoken in Argentina and Brazil respectively), ignorance from both sides and a mind set that has avoided trade with the South American continent for decades. But these problems can be easily overcome. Through globalisation, there is a better understanding between cultures, people are learning and understanding foreign languages (in Brazil and Argentina there is a broad understanding of English as it is a compulsory subject in most secondary school education programs and there is a small increase in South Africans learning Portuguese and Spanish) and there is a greater awareness and understanding of foreign countries of which previously little was known.

Besides these general problems that have affected bilateral trade with Argentina and Brazil, there are more specific problems related to market access, competition and basic barriers to trade. Geographical location and Mercosur trade agreements have given Brazil and Argentina easy access to each other's markets. Critics argue that this has had a negative effect by creating trade diversion. But the fact remains, exports of various commodities, including wine, have benefited from these agreements. Brazilian consumers can enjoy a relatively good bottle of Argentine wine at a highly competitive price. This has led to a considerable increase in Argentine wine exports to Brazil together with a slight decrease in wines from other countries unable to compete with the added advantage Argentina now has. (www.trademap.net) The Brazilian wine industry has also grown in recent years and has provided a cheaper alternative to imports from countries such as South Africa.

Various tariff and non-tariff barriers have seriously prevented market access to both the Brazilian and Argentine markets. In the form of tariff barriers, Brazil

imposes a 22.5% import duty³ on wines entering the market. (Rabbitts³, 2001) Other barriers such as basic requirements ranging from alcohol content to design style and wording on labels has created a number of problems for wine producers seeking access to the Brazilian market. Often the costs of overcoming such barriers exceed the potential gains and thus exports to Brazil are discarded.

Argentina also has a number of barriers to trade. The requirements are often not as stringent as those of Brazil, but an import tariff of 35% certainly does discourage wine exports from the likes of South Africa. (www.infojust.com) With a tariff duty so high it is close to impossible to compete with the local industry or even Chile, which faces a significantly reduced tariff of 22.5% as an associate member of Mercosur.

Through an FTA agreement with Mercosur, many of these tariff and non-tariff barriers can be minimised or even eliminated giving South African wine producers easy access to both the Brazilian and Argentine markets. With a decrease in these tariffs, the South African wine industry will be able to use its competitive advantage and exploit the huge market potential available in Argentina and particularly Brazil.

4.4.1.3.3. Brazil and Argentina

Like South Africa, wine exports from Brazil and Argentina to the rest of the world has been disappointing. The Brazilian industry is relatively new and undeveloped and can therefore not be expected to have a prominent position in international wine markets. But the Argentine wine industry, which has a history dating back 500 years and is the 5th largest wine producer in the world has under performed in terms of exports. Argentina's exports represent 1% of world wine exports and is ranked in 11th place. (www.euromonitor.com) This poor export performance can be

³ This information was obtained from an interview conducted via e-mail with Mr. Mark Rabbitts, an Economic Representative for TISA in Brazil.

attributed largely to the huge domestic consumption in Argentina that accounts for majority of the production.

As mentioned, Brazil's exports are negligible with close to the entire production consumed by the local market. Its position in terms of world imports is far more significant. Argentina, on the other hand, has both a large production and domestic consumption. But its recent strategy of focusing on international markets has led to an increase in wine exports and the firm belief by many that Argentina will be the *New World Wine* producer of the future. (Young, 1998) Currently, close to 30% of Argentina's wine is exported to other Mercosur countries that are taking advantage of the reduced tariffs associated with the trade agreements signed. (www.trademap.net) The United Kingdom is the single biggest importer of Argentine wines followed closely by the United States.

Table 4.12: Argentina- Total Wine Exports: 1990-2000

| | Volume | Value |
|------|-------------|---------------|
| | Litres | USA\$ million |
| 1990 | 44 553 600 | 15 234 |
| 1991 | 28 209 700 | 17 937 |
| 1992 | 22 738 400 | 22 095 |
| 1993 | 25 079 900 | 24 588 |
| 1994 | 22 631 000 | 23 607 |
| 1995 | 197 036 000 | 60 869 |
| 1996 | 111 986 600 | 65 856 |
| 1997 | 120 468 200 | 119 108 |
| 1998 | 108 904 200 | 140 005 |
| 1999 | 88 050 000 | 117 202 |
| 2000 | 84 302 000 | n/a |

n/a = not available

Source: www.wosa.co.za

Argentina has traditionally exported bulk wines. But the recent strategy implemented has shifted away from this market, focusing on fine wines and wines that are characteristic of Argentina, such as Malbec. The unique flavour of Malbec

has gained wide spread acceptance throughout the world and shortages of this particular variety have allowed for easy access into the protected European market. Malbec is regarded as a taste of Argentina and is therefore used to promote the entire Argentine wine industry in international markets that have little exposure to Argentine wines. (Vinos & Vinas Internacional, Numero Especial, 1998)

The strategy implemented by the Argentine wine industry is one that is supported and driven by government. Various incentives are offered to producers in an attempt to boost wine exports to foreign markets. One such incentive is an *extramercosur refund or reimbursement*. (www.infojust.com) This is a type of subsidy that the government pays to local producers who face import tariffs in the countries where they are exporting their wines. The government has agreed to cover 12% of the tariff implemented by the country of the importer. For example, Argentine wines face a 25% tariff when entering the South African market. Through the *reimbursement* of 12% of the tariff by the Argentine government, Argentine producers effectively only face a 13% tariff. Thus, the government facilitates far better access to foreign markets. This is a long term strategy that will help Argentine wines perform more effectively in international markets, putting them a step ahead of their competitors and will help them gain market share for the future.

4.4.1.3.4. Exports to South Africa

Argentina exports a minimal amount of wine to South Africa. Although the amount is very little it does exceed the amount of wine Argentina imports from South Africa. Through the seven-year period from 1994 to 2000 South Africa imported a total of slightly more than R74 million worth of wine from Argentina. (DTI, 2001) This was mainly bulk wine used for blending and to substitute shortages in the domestic market.

Through an FTA agreement various areas of co-operation can be explored. Domestic consumption in both Argentina and South Africa is incredibly large, sometimes even exceeding local supply. For this reason an alternative supply at a low cost is required to substitute for the shortages encountered. Through an FTA, the importing of an inexpensive wine from Argentina is a cost effective way of rectifying a shortage of supply due to climatic conditions in the country or just poor production. Varieties such as Malbec, which Argentina has an abundance of and South Africa a shortage, also offers an opportunity for co-operation. South Africa could import Malbec for its ideal use in blends. The same could be applied to Pinotage, for which South Africa is world renown. An FTA would allow Argentina to acquire the unique Pinotage variety from South Africa at a preferential price, thus allowing Pinotage to enter the Argentine market and provide them with an alternative flavour from Africa.

4.4.1.3.5. Argentine and Brazilian Wine Imports from the Rest of the World

Argentina imports a very small amount of wine from the traditional wine exporting countries and its neighbours, Uruguay and Chile. This is indicated by the fact that South Africa is the 12th largest exporter of wine to Argentina, which as mentioned above, is minimal. Chile supplies 40% of Argentina's total imports, taking full advantage of the reduced tariffs it has as an associate member of Mercosur.

(www.trademap.net)

Brazil is a far more significant importer of wines, due to the recent growth in its consumer market and its sheer size. Once again, its South American neighbours play an important role in Brazils imports, with Argentina having doubled its exports to Brazil in year 2000. But the traditional wine producers of Italy, Portugal and France dominate the Brazilian import market accounting for 60% of Brazilian imports. (www.trademap.net)

Together Argentina and Brazil are an important prospect for wine exporting countries. Argentina has traditionally formed the backbone of the South American wine market being the 6th largest wine consuming country in the world. Brazil seems to be the new emerging wine market from South America that has experienced significant growth in recent years with a positive outlook for the future. These attributes, together with those of surrounding countries such as Uruguay and Chile, have made the entire region an important destination for wine producers all over the world.

An FTA agreement with these countries will give the South African wine industry a head start into these markets, allowing them the opportunity to position themselves in such a way as to compete effectively with others that are bound to gain market access in the not too distant future.

4.4.1.3.6. Current and future market potential of regions around the world

Table 4.13: Volume and Value Sales of Wine by Region 1995-2000

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|-----------------------|--------|--------|--------|--------|--------|--------|
| <i>Million litres</i> | | | | | | |
| Western Europe | 12,103 | 12,293 | 12,527 | 12,744 | 13,154 | 13,502 |
| Asia-Pacific | 3,488 | 3,558 | 3,694 | 3,836 | 3,916 | 3,970 |
| Eastern Europe | 2,721 | 2,718 | 2,714 | 2,727 | 2,678 | 2,713 |
| North America | 2,068 | 2,147 | 2,229 | 2,332 | 2,393 | 2,421 |
| Latin America | 1,943 | 2,022 | 2,067 | 2,187 | 2,311 | 2,416 |
| Africa & Middle East | 470 | 483 | 497 | 508 | 516 | 522 |
| Australasia | 390 | 399 | 419 | 437 | 449 | 458 |
| WORLD | 23,183 | 23,620 | 24,147 | 24,771 | 25,417 | 26,002 |
| <i>US\$ billion</i> | | | | | | |
| Western Europe | 80.9 | 83.3 | 78.8 | 80.9 | 83.9 | 86.3 |
| Asia-Pacific | 34.4 | 31.1 | 29.4 | 27.4 | 29.1 | 29.0 |
| North America | 15.7 | 17.3 | 19.0 | 20.6 | 22.0 | 23.2 |
| Eastern Europe | 8.0 | 9.1 | 10.3 | 9.9 | 8.4 | 8.5 |
| Latin America | 5.6 | 5.5 | 5.8 | 6.2 | 6.4 | 6.8 |
| Africa & Middle East | 2.7 | 2.7 | 2.7 | 2.7 | 2.6 | 2.6 |
| Australasia | 1.7 | 1.9 | 1.9 | 1.7 | 1.9 | 1.9 |
| WORLD | 149.0 | 150.9 | 147.9 | 149.4 | 154.3 | 158.3 |

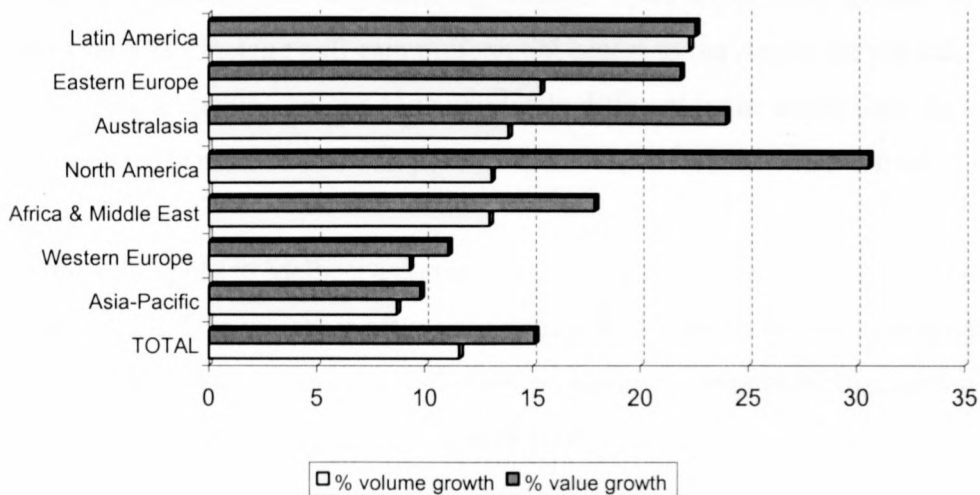
Source: Euromonitor, www.euromonitor.com

Table 4.14: Volume and Value Sales of Wine by Region: % Growth 1995-2000

| | 1999/2000 | 1995-2000 CAGR | 1995/2000 TOTAL |
|------------------------|-----------|-------------------|--------------------|
| <i>% volume growth</i> | | | |
| Latin America | 4.5 | 4.4 | 24.3 |
| Western Europe | 2.6 | 2.2 | 11.6 |
| Australia | 2.1 | 3.3 | 17.5 |
| Asia-Pacific | 1.4 | 2.6 | 13.8 |
| Eastern Europe | 1.3 | -0.1 | -0.3 |
| North America | 1.2 | 3.2 | 17.1 |
| Africa & Middle East | 1.1 | 2.1 | 10.9 |
| WORLD | 2.3 | 2.3 | 12.2 |
| <i>% value growth</i> | | | |
| Latin America | 6.2 | 3.9 | 21.1 |
| Australasia | 5.5 | 3.3 | 17.5 |
| North America | 5.3 | 8.2 | 48.1 |
| Western Europe | 3.0 | 1.3 | 6.8 |
| Africa & Middle East | 1.9 | -1.0 | -5.1 |
| Eastern Europe | 1.8 | 1.3 | 6.8 |
| Asia-Pacific | -0.2 | -3.3 | -15.6 |
| WORLD | 2.8 | 1.3 | 6.4 |

Source: Euromonitor, www.euromonitor.com

Figure 4.8: Forecast Global Sales of Wine: % Growth 2000-2004



Source: Euromonitor, www.euromonitor.com

4.4.1.4. Recommendations

An FTA agreement between Mercosur and South Africa will open up a number of opportunities from which all members can benefit. The benefits as perceived by South Africa include market access to a large, well established and growing consumer wine market as well as various areas of co-operation and collaboration. For these reasons mentioned, which offer a broad number of benefits for the South African wine industry, it would be most appropriate to assume an offensive position in these trade negotiations and agreements with Mercosur.

There is obviously a serious threat posed by Argentina. The Argentine wine industry is close to double that of South Africa. In terms of price, quality and quantity Argentina have a competitive advantage over most international competitors and together with the support received from government, the Argentine wine industry certainly does look set for great heights. But an FTA will allow South African wines to compete with those from Argentina on a more equal level. Various fines wines and white wines of South African origin will be highly competitive alongside their Argentine equivalents. More importantly, unique varieties such as Pinotage will gain preferential access to the Argentine market, offering them something unique and completely different to the wines they are accustomed to. In essence this will provide them with a taste of South Africa.

The same will apply to Malbec, a common variety in Argentina but relatively rare in South Africa. This variety is often used in blends, for which there is a massive demand in South Africa. An FTA will allow producers to acquire Melbec, and if necessary use it in blends far more cost effectively.

The real advantage of an FTA with Argentina comes in the form of co-operation. In times of low production and especially when domestic demand exceeds supply, shortages can be rectified through imports from Argentina. Perhaps once co-operation has been firmly established it could develop into a form of collaboration

in which a similar operation can be extended in such a way as to improve Argentina and South Africa's mutual competitive advantage in international wine markets.

The most obvious and immediate benefits of an FTA are in market access. It is apparent that these benefits lie predominantly in the Brazilian market. The Brazilian wine market is incredibly large and has been growing progressively for a number of years. Areas of focus for the South African wine industry include fine red wines, for which there is a definite niche developing, competitively priced white wines, sparkling wines and wine coolers. Sparkling wines and wine coolers are product lines that have gained a great deal of popularity in Brazil in recent years and are both areas in which the South African wine industry is competitive.

An FTA will undoubtedly provide a number of opportunities for the South African wine industry. Various tariff and non-tariff barriers will be minimised or even eliminated, forcing South African wine producers to improve their marketing efforts and general international exposure. It will thus allow the industry to gradually familiarise itself with foreign markets and therefore assist in the inevitable process of globalising the South African wine industry.

4.4.2. Case Study 2: **The Leather Industries of South Africa, Argentina and Brazil**

4.4.2.1. Introduction

The international leather industry is clearly divided in terms of the products that fall under the broad umbrella of leather. This report will focus on two specific categories, which to a large extent covers the entire leather industry. The areas of focus will be chapter 41, broadly covering raw hides and skins, and chapter 42, which accounts for articles of leather.

Countries such as the United States, Australia, the United Kingdom, Argentina and Italy dominate the international leather industry. Brazil and South Africa also play a significant role. Italy is the undisputed leader in exports of manufactured leather articles and is world renown for its high quality leather products.

The leather industry is not only divided by types of products produced, but by quality too. Differing needs require differences in leather quality. These differences demand a broad spectrum of leather products from mass-produced, low quality, cheap leather to more expensive high quality leather. This is an area that can be exploited through co-operation between countries producing different leather products or products differing in quality. An agreement between South Africa and Mercosur countries could allow for mutual benefits for industries on both sides in international leather markets.

4.4.2.2. Characteristics of the Brazilian and Argentine Leather Industry

Both Brazil and Argentina are large leather producers, making a significant contribution as exporters of leather products. Where Brazil, in terms of size, can be viewed on an equal level to South Africa, Argentina is among the top five world exporters of leather and leather goods. (www.trademap.net) Although Argentina is

clearly the dominant leather producing country in South America, the true strength lies in the collective advantage facilitated by Mercosur, which has provided preferential trade agreements between Brazil, Argentina and the lesser known Uruguay. Mercosur has therefore provided a competitive advantage in terms of product differentiation, quality and costs based on a network of supplies for raw materials, scale of production and degree of specialisation. (www.mecon.gov.ar)

Argentina clearly appears to be the shining star of South America when it comes to the leather industry. The industry is a natural outgrowth of Argentina's large cattle-raising industry and has to some extent stemmed from its world-renown beef industry. Of the 12 million hides produced annually, Argentina exports roughly 80% of the production, 60% being unfinished hides and skins. Between 1990 and 1995 Argentine exports of hides and skins doubled. But this growth seriously declined in the late 1990's as international leather prices increased and Argentine leather in particular became less competitively priced. Currently, Argentine leather exports are in the region of \$1 billion. (www.invertir.com)

Brazilian leather exports are dispersed among a number of countries, while Argentine exports are absorbed predominantly by the US market, which accounts for nearly 50% of Argentine leather. (www.trademap.net) Obviously intra-regional trade among Mercosur members also accounts for a great deal of the leather traded as well as markets in Southeast Asia and Italy.

Argentina's success in the leather industry is not only a result of its size. The quality of Argentine leather and the diversity of products, not to mention a good understanding of international requirements have put Argentina in a prominent position in international leather markets.

Although both Argentina and Brazil have clearly indicated the need to enter new overseas markets and have therefore placed an emphasis on exports, there are still a number of barriers limiting both imports and exports of Brazilian and Argentine

leather. Import duties are not such a strange phenomenon in an industry that is still relatively well protected in a number of countries around the world. Both Brazil and Argentina have an import tariff of 12.5% and lower on chapter 41 leather products (raw hides etc) and 22.5% and 35% on chapter 42 (articles of leather) products respectively. Pieterse, 2001 & Rabbitts, 2001⁴) Although Argentina's import tariff on certain articles of leather is incredibly high, the other tariffs seems to fit those of world standards. Where both Brazil and Argentina seem to deviate quite drastically from international trade regulations is in the implementing of an export duty on raw or semi finished bovine hides. In Brazil this is 9% (Rabbitts, 2001) and in Argentina 5% (www.infojust.com). This limits the exports of raw bovine hides from Brazil and Argentina, thus protecting the leather manufacturing industries in these countries by preventing a shortage of supply. This is an area that contravenes the rules of the World Trade Organisation (WTO) and has been disputed by the likes of the EU.

An FTA between South Africa and Mercosur will help minimise and eventually eliminate some of these tariff barriers. This will give South Africa access to a market that has been heavily protected by both import and export duties. More importantly, it will provide an opportunity for co-operation between the countries involved. A Shortage of raw leather hides is relatively common due to the high international demand. Through co-operative means this problem can be overcome. Argentina and Brazil will gain easy access to the South African market as well as, if necessary, purchase cheaper hides from South Africa to compensate for any shortages. South Africa will also have access to both markets and will be able to purchase raw hides at a reduced price therefore helping it meet the demands of the growing international market.

⁴ This was information obtained from interviews conducted via e-mail with Mr. Paul Pieterse and Mr. Mark Rabbitts, economic representatives for TISA in Argentina and Brazil respectively

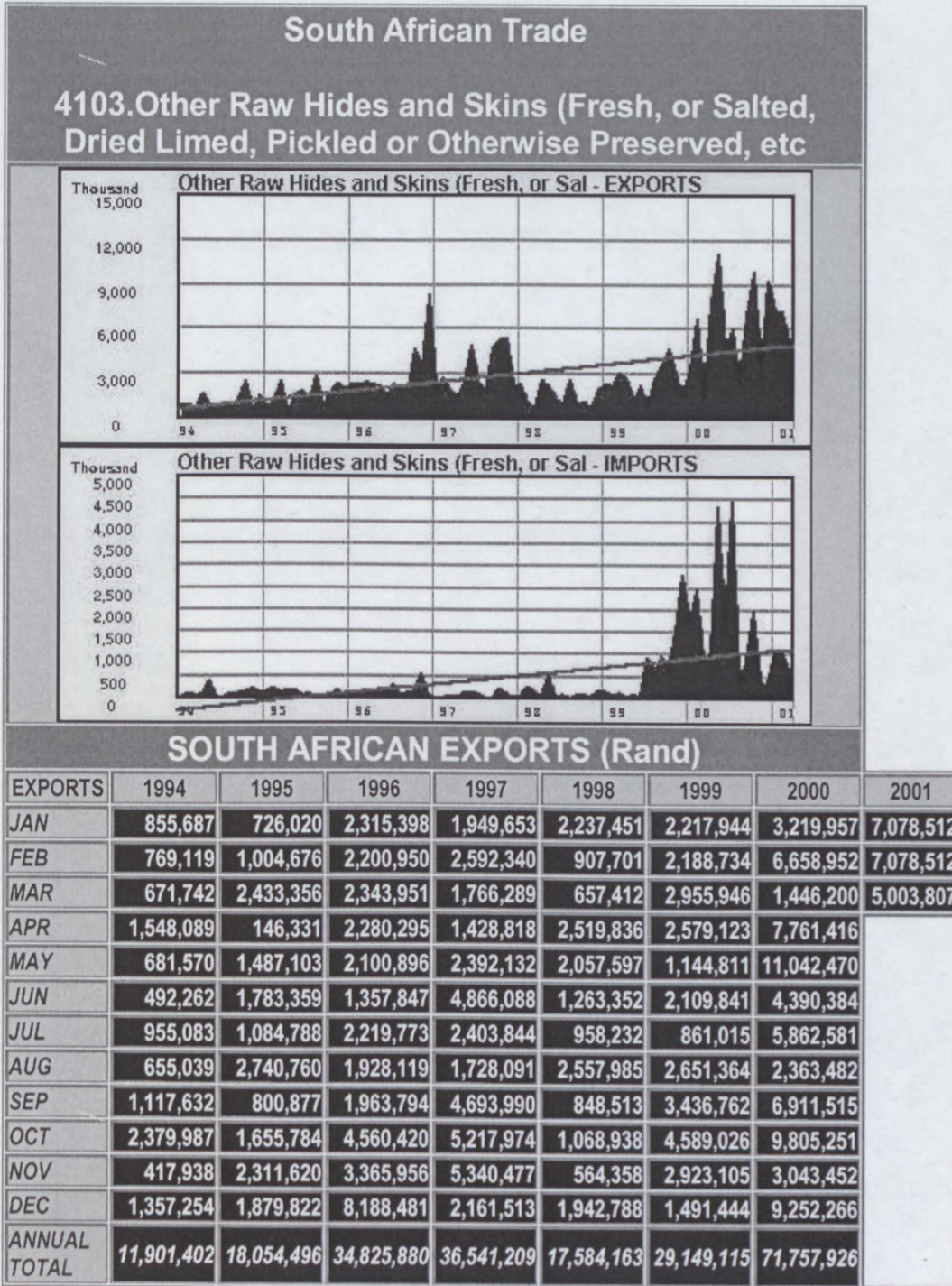
4.4.2.3. Existing Trade Flows

4.4.2.3.1. South Africa

The South African and SACU leather industry is relatively small when compared to Argentina and the rest of Mercosur. The industry is however growing at a rapid rate. The demand from Europe for lower quality leather that is far more competitively priced has resulted in leather exports increasing substantially between 1999 and 2000. (www.trademap.net) Majority of this demand comes from car seat manufacturers. (DTI, 2001)

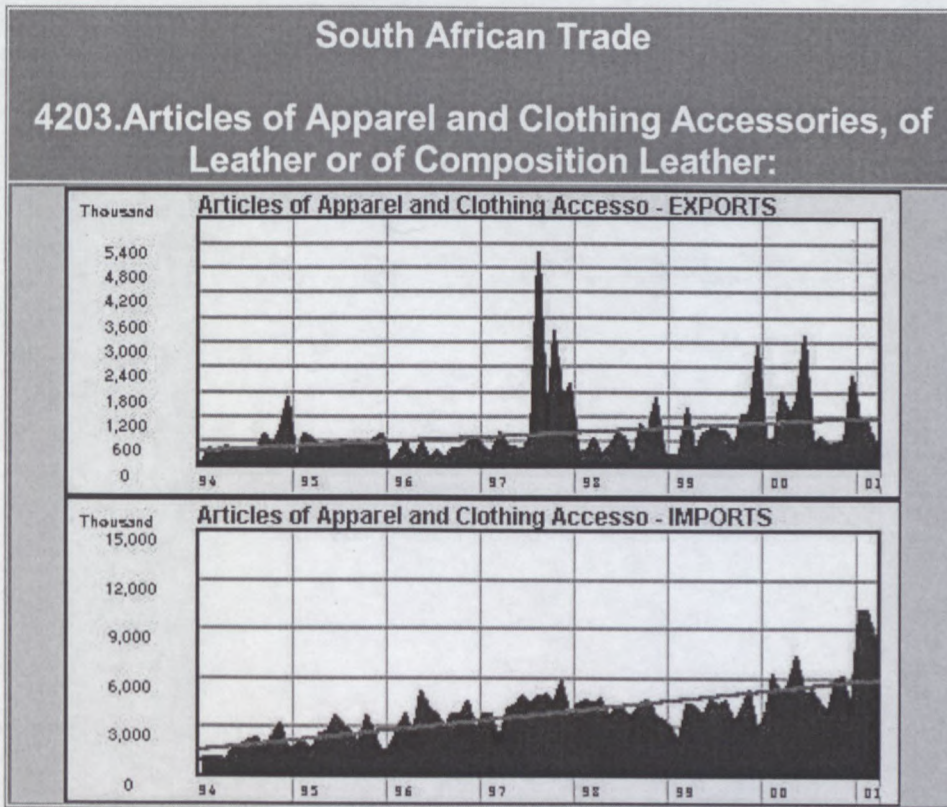
South Africa's raw hides and articles of leather also constitute important export commodities that are absorbed by a number of markets in Europe and Asia, particularly Italy.

Figure 4.9: South African Trade in Raw Leather Hides



| SOUTH AFRICAN IMPORTS (Rand) | | | | | | | | |
|------------------------------|-----------|-----------|-----------|---------|-----------|-----------|------------|-----------|
| IMPORTS | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
| JAN | 288 | 131,572 | 44,009 | 18,637 | 58,410 | 160,632 | 1,723,616 | 1,048,036 |
| FEB | 95,624 | 223,450 | 56,442 | 6,972 | 257,483 | 52,068 | 2,460,261 | 1,048,036 |
| MAR | 57,500 | 132,467 | 131,559 | 59,317 | 153,379 | 107,855 | 860,560 | 647,782 |
| APR | 71,666 | 163,998 | 105,598 | 17,710 | 39,045 | 34,077 | 1,008,340 | |
| MAY | 370,310 | 165,681 | 191,315 | 131,363 | 510,243 | 95,121 | 4,315,078 | |
| JUN | 11,861 | 53,961 | 104,379 | 138,454 | 38,449 | 26,689 | 1,487,196 | |
| JUL | 3,455 | 82,247 | 305,503 | 85,327 | 73,053 | 882,008 | 4,443,720 | |
| AUG | 94,317 | 35,659 | 38,500 | 5,022 | 230 | 609,834 | 405,105 | |
| SEP | 105,638 | 5,591 | 117,093 | 3,818 | 77,451 | 943,884 | 827,101 | |
| OCT | 126,146 | 35,021 | 124,875 | 215,259 | 75,751 | 621,493 | 1,942,295 | |
| NOV | 207,034 | 169,082 | 527,875 | 95,484 | 53,077 | 1,493,735 | 374,268 | |
| DEC | 129,660 | 28,205 | 33,150 | 25,518 | 166,552 | 2,759,408 | 314,398 | |
| ANNUAL TOTAL | 1,273,499 | 1,226,934 | 1,780,298 | 802,881 | 1,503,123 | 7,786,804 | 20,161,938 | |

Figure 4.10: South African Trade in Leather Articles



| SOUTH AFRICAN EXPORTS (Rand) | | | | | | | | |
|-------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| EXPORTS | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
| JAN | 84,607 | 24,307 | 37,942 | 429,629 | 385,240 | 265,716 | 687,989 | 1,031,269 |
| FEB | 400,330 | 753,607 | 253,606 | 295,497 | 334,513 | 307,682 | 601,616 | 1,031,269 |
| MAR | 227,483 | 669,354 | 562,981 | 801,416 | 655,753 | 1,393,813 | 1,764,010 | 521,774 |
| APR | 483,898 | 424,785 | 108,794 | 468,571 | 278,431 | 329,737 | 1,210,396 | |
| MAY | 325,005 | 560,415 | 541,123 | 439,310 | 447,423 | 804,087 | 1,651,260 | |
| JUN | 422,081 | 525,494 | 151,134 | 402,888 | 745,274 | 892,950 | 3,160,198 | |
| JUL | 364,208 | 623,881 | 347,066 | 711,384 | 725,640 | 878,875 | 497,736 | |
| AUG | 406,613 | 531,124 | 159,669 | 5,161,657 | 107,992 | 799,162 | 716,377 | |
| SEP | 776,192 | 589,414 | 400,504 | 849,536 | 993,346 | 483,645 | 467,633 | |
| OCT | 443,732 | 357,258 | 419,420 | 3,241,047 | 808,551 | 1,223,960 | 570,143 | |
| NOV | 925,835 | 644,050 | 568,910 | 1,603,144 | 1,633,090 | 1,290,543 | 631,013 | |
| DEC | 1,647,878 | 782,967 | 674,689 | 1,997,946 | 309,318 | 2,914,856 | 2,174,271 | |
| ANNUAL TOTAL | 6,507,862 | 6,486,656 | 4,225,838 | 16,402,025 | 7,424,571 | 11,585,026 | 14,132,642 | |
| SOUTH AFRICAN IMPORTS (Rand) | | | | | | | | |
| IMPORTS | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
| JAN | 1,037,927 | 1,900,670 | 1,772,334 | 3,785,543 | 4,391,695 | 2,976,300 | 3,662,326 | 10,146,238 |
| FEB | 1,165,099 | 2,000,598 | 2,871,514 | 3,754,696 | 4,618,828 | 2,132,910 | 6,181,870 | 10,146,238 |
| MAR | 1,139,686 | 1,578,100 | 3,747,621 | 1,908,204 | 4,372,318 | 4,455,880 | 4,911,228 | 8,344,022 |
| APR | 961,742 | 2,575,154 | 2,480,551 | 4,061,683 | 4,737,528 | 4,256,533 | 5,582,450 | |
| MAY | 1,651,602 | 2,658,842 | 5,096,106 | 4,282,200 | 3,488,781 | 3,698,507 | 7,377,568 | |
| JUN | 1,846,619 | 3,671,413 | 4,068,942 | 4,906,974 | 4,272,371 | 4,632,233 | 5,137,185 | |
| JUL | 2,153,012 | 3,037,023 | 3,746,135 | 4,311,414 | 4,004,196 | 4,405,053 | 5,195,984 | |
| AUG | 2,340,267 | 2,700,204 | 2,994,905 | 4,839,582 | 3,613,851 | 4,584,530 | 4,524,205 | |
| SEP | 1,583,569 | 1,766,289 | 3,850,339 | 4,950,502 | 4,381,747 | 3,338,563 | 3,852,976 | |
| OCT | 2,429,519 | 3,643,880 | 3,711,826 | 4,470,039 | 4,689,973 | 4,016,059 | 5,901,212 | |
| NOV | 3,216,972 | 2,585,799 | 4,496,718 | 5,721,332 | 3,687,638 | 5,231,387 | 6,106,217 | |
| DEC | 1,546,327 | 1,373,852 | 2,840,281 | 3,626,303 | 3,439,472 | 2,806,870 | 3,925,627 | |
| ANNUAL TOTAL | 21,072,341 | 29,491,824 | 41,677,272 | 50,618,472 | 49,698,398 | 46,534,825 | 62,358,848 | |

South Africa's recent growth in the leather industry can be attributed to the highly competitive prices of South African leather as well as the easy access leather traders have to the South African market. There exists no export duties on any leather products and import duties are kept to a maximum of 10% for chapter 41 products and 30% for chapter 42 products. (DTI, 2001)

4.4.2.3.2. Bilateral Trade with Brazil and Argentina

Following the general trend of bilateral trade between South Africa and Mercosur, bilateral trade in the leather industry has been minimal. The greatest amount of trade that has taken place is in South Africa's imports of raw hides from Brazil, which over a 7 year period from 1994 to 2000 accumulated to R264,559,722. (DTI, 2001) This was predominantly for the use of car seat manufacturing where shortages in South African raw hides have occurred. The current Argentine exports to South Africa of \$1.7 million (+- R16 million) was used for precisely the same purpose. (DTI, 2001)

Exports to either Brazil or Argentina of both raw hides and articles of leather are negligible. This is due to the size and the competitive advantage the local industries have in their domestic markets, which are assisted by the stringent tariffs existing as well as the shortage of supply in South Africa that is absorbed almost entirely by the local and European markets.

4.4.2.4. Recommendations

An FTA agreement between South Africa and Mercosur will open up a number of opportunities that will have to be analysed more closely considering the diversity of products in the leather industry. From a broad overview, and considering the areas of growth in the South African leather industry, an FTA will help the South African leather industry grow by better meeting the demands of international markets. Considering this as well as the fact that the South African leather industry is already relatively open, it would be appropriate to assume an offensive position on forthcoming negotiations for an FTA with Mercosur.

An FTA may open the door for leather products from both Argentina and Brazil that could affect the South African and SACU leather industries. Although this may pose a threat, especially to certain SACU members, the nature of the leather

products produced by Argentina and Brazil as well as the competitive price of Southern African leather products should help ease any concerns over the competitive threat posed.

The most obvious benefits of an FTA for South Africa is the preferential access to raw leather hides in Brazil and Argentina. An FTA should eliminate the export duty of raw leather hides, allowing South Africa to acquire hides at a lower price. This is becoming increasingly important as the demand for hides in South Africa is increasing and at times surpassing supply. The leather car seat industry is an example of an increase in the demand for South African leather where local supply has been unable to meet demand from time to time. This could therefore be supplemented with higher quality Argentine or Brazilian leather through an FTA agreement.

The true opportunities of free trade agreements with Brazil and Argentina will therefore be in the form of co-operation. Argentina and Brazil will have to eventually conform to international trade standards and regulations and therefore cut export duties on leather. This may affect domestic supply of raw hides, a problem South Africa occasionally experiences too. Through co-operation, these concerns can be overcome by providing an alternative source of raw hides. Therefore, when shortages of raw hides occur in South Africa either Argentina or Brazil can compensate, while if the scenario is reversed, South Africa can come to the assistance of its South American partners. This co-operative agreement could advance into a form of collaboration between South Africa and Mercosur countries in international leather markets.

4.5. Industry-to-Industry and Company-to-Company Relations: The Role of the Private Sector

The previous section emphasised the need for trade as a prerequisite to and the maintaining of an FTA. The participation of the private sector is therefore essential. Through industry-to-industry or company-to-company relations interaction will increase and will serve in galvanising agreements reached. It is therefore important to include various industry representatives as well as members of the private sector in negotiations toward an FTA between SADC and Mercosur or SACU and Mercosur in the preliminary stages. In so doing a high degree of transparency can be reached and the broad number of business opportunities available realised by bringing them to the attention of the private sector.

The development of this micro-type co-operation (Mecedo, 2000:95-96) will help overcome the historical problems of cultural and language barriers as well as the ignorance factor. It will also assist in developing a healthy co-existence of rivalry and co-operation, a status quo that many South African industries need to grow accustomed to in their adapting toward globalisation. (Herrera, 2000:114)

At this stage there is definite interest being shown from South African business in the Mercosur region. (DTI, 1999) Having been part of the establishing of Mercosur as well as other trade agreements with the EU, the Andean Group and Mexico, the Mercosur private sector (particularly in Brazil) realises the importance and benefits involved in trade liberalisation.

As mentioned previously, the benefits of an FTA are not limited purely to preferential market access or increases in economies of scale, both of which essentially lead to an increase in trade flows. Through various forms of "micro-co-operation" markets can be better accessed and the challenges associated with international activities better managed. Co-operation will facilitate the exchange of knowledge and technology. Companies will more willingly enter into joint-

ventures as a means to better penetrate the new market made available, as well as to improve efficiency and effectivity in their operations. Perhaps in this way companies and even industries from both regions will ultimately develop co-ordinated activities, which will address the needs of each respective region on a domestic and international level.

There are a broad number of benefits available for the private sector through an FTA agreement. Improved support from industries and business will increase benefits exponentially. It is therefore essential to involve the private sector in bilateral negotiations with Mercosur and by doing so allow them to share the vision of a SADC-Mercosur FTA.

4.6. Conclusion

As indicated in the introduction, this chapter dealt less with strategic aspects and more with the bilateral aspects of inter-regional relations with Mercosur. It therefore addressed the prospects of an FTA and the implications it would have for the parties involved.

An FTA with Mercosur will provide an important stepping stone toward liberalisation and at the same time offers certain restrictions that will lessen the adjustment shock of complete multilateral liberalisation.

Mercosur has a great deal of potential to offer and is thus an ideal partner in an FTA agreement with SADC. The massive Mercosur market is still largely untapped by foreign exporters. In terms of SADC, there is a complete lack of traditional trade relations between the two. Only a minimal amount of bilateral trade is currently taking place between South Africa on the SADC side and Argentina and Brazil on the Mercosur side. This needs to increase and be extended to other members in the two respective regions so as to establish a commitment between SADC and Mercosur and therefore serve to ensure sustainable trade

relations. With negotiations in place and agreements likely to be made, the only factor lacking is substantial trade. It is therefore essential that trade flows increase in order to galvanise agreements reached.

It is clear that majority of the trade at present as well as current negotiations are between SACU and Mercosur. If some progress is made between SACU and Mercosur, it will be a positive indication that broader relations are possible in the future. It will thus serve as an initial phase in the process toward an ultimate FTA that includes SADC.

By addressing trade restrictions, current trade and potential trade an FTA will boost the current level of trade between Mercosur and Southern Africa to new heights.

The case studies provided insight into the difficulties and benefits of an FTA for specific industries. Both the wine and leather industries are examples of industries that produce processed agricultural products and are therefore very much in touch with a number of the sensitive issues surrounding agriculture. It is clear that each individual industry has a number of factors that need to be considered when entering into FTA negotiations. A firm understanding of the dynamics of the agreements and the significance to their specific industry is important so as to maximise benefits available.

The last section of the chapter illustrated the importance of industry and business in the establishing of an FTA with Mercosur. Business must be brought on board as early as the negotiating stages. It is after all industry and the private sector that provides the motor that drives the agreements forward into the future.

The central questions of "Why Mercosur?" is addressed in great detail in this chapter. There is a focus on direct links between Mercosur and SADC and the immediate benefits of increased trade and improved co-operation are made

evident. It becomes clear in this chapter that Mercosur is an ideal partner for SACU initially and eventually for the rest of SADC too. The chapter also offers a solution or alternative that addresses the problem of "SACU vs SADC as Mercosur's partner". Enhancing trade relations between SACU and Mercosur and possibly even creating an FTA will serve in bringing an FTA between SADC and Mercosur one step closer.

Chapter 5

Conclusion and Recommendations

5.1. Introduction

This final chapter draws together the issues raised and the important points made throughout the study in an effort to answer the central question in a conclusive manner. This is done in such a way as to simplify the question of "Why Mercosur and SADC?" by addressing the question of "Why Mercosur?" and "Why SADC?" separately.

The areas related to SADC-Mercosur relations, which are discussed in detail in chapters 2, 3 and 4 are briefly looked at. Salient aspects of each related area are mentioned and are cohesively related to ensure a substantive response to the questions as well as establish a constructive conclusion.

The conclusion essentially deals with the "road ahead" and offers a valid recommendation of a strategy to pursue with regard to relations with Mercosur. This strategy is the end result of the research conducted, information gathered and arguments substantiated throughout the study and thus offers a possible option as a way forward in SADC/Mercosur relations.

5.2. "Why Mercosur and SADC?"

The central question at the outset of this study, which has been addressed from varying perspectives in the chapters that followed was "Why Mercosur and SADC?" This problem can be further divided and in so doing simplified into two questions, "Why Mercosur?" and "Should SADC be the Southern African partner?" These questions were dealt with in some detail throughout the study pointing towards a conclusion that supports enhanced relations between SADC and Mercosur in the not too distant future.

From the perspective of a developing regional block such as SADC or even a middle income country such as South Africa various qualities were identified in Mercosur that make it a viable partner in the global political economy. Various areas were looked at that provided a reasonable basis from which relations with Mercosur could be pursued. These include its success in terms of regional integration or its regional qualities as mentioned above, the broader more strategic benefits associated with a longer-term partnership in the global context and the benefits of preferential bilateral trade relations. All these indicate the great potential available through establishing stronger ties with Mercosur.

The success of Mercosur's regional integration is phenomenal. In a reasonably short period of time a level of integration has been achieved that was previously unthinkable in the developing world and is held in high regard by developing and developed nations alike. Mercosur is one of the most evolved examples of regional integration found in the world today.

Not only does Mercosur provide SADC with a highly evolved example of regional integration to emulate, but it also comes with a market size of 230 million people that is largely untapped and a geographical proximity that makes Southern Africa and Mercosur practically neighbors. Chapter 2 pointed out a number of areas where SADC could learn from the South American experience as well as salient differences between the two regions. It is clear that Mercosur's pragmatic style of integration that focused on "deepening before widening" has been an undeniable success. Not only have they managed to establish a Customs Union with a common external tariff but also the combined potential of its member countries has attracted a huge amount of FDI. The creation of Mercosur has also resulted in exponential growth in intra-regional and external trade. These are all factors seriously lacking in the SADC region.

There is a definite indication that through stronger inter-regional relations or agreements, problems within SADC and weaknesses in both regions (but especially SADC) can be addressed. The lack of symmetry, which exists to some extent in Mercosur and is significant in SADC, can be countered through agreements between the two. The inclusion of South Africa could, together with Argentina, help balance the economic and political dominance of Brazil in Mercosur. On the SADC side, Mercosur's influence could definitely counter the highly asymmetrical situation where South Africa's dominance is unchallenged by even the combined strength of the other SADC members.

An area where SADC could learn from its counterpart in South America is in the functioning of its regional institutions. In the highly fragmented SADC region the pragmatic approach assumed by Mercosur, if applied to SADC, could serve in establishing some form of cohesion in the region. Through cohesion among members and the better functioning of regional institutions, serious progress could be made toward boosting the ineffective socio-economic development that is currently taking place.

Other areas highlighted in chapter 2 that distinguished Mercosur from SADC included rules of membership as well as the lack of conflict and widespread democracy within Mercosur. If SADC could establish similar clarity on its rules of accession together with a democratic basis, unity among members would be more easily established. This would assist in resolving current conflicts and help create a foundation to avoid conflicts in the future, as is the case in South America where conflicts were common prior to successful regional integration.

Chapter 3 dealt with a broader perspective associated with SADC-Mercosur relations. Seeking to enhance relations between SADC and Mercosur will have strategic benefits that are more visionary in nature in the context of the global political economy. Improved relations between the two regions will significantly increase the collective strength of each region in multilateral activities as well as

offer new avenues of opportunity through extra-regional benefits gained from agreements reached.

Similar values and a common understanding on various global issues forms the basis of this rationale. Their affiliation to a common "southern" based approach to multilateral organisations as well as the mutual demands made and outcomes reached at recent multilateral gatherings indicates a strong diplomatic bond developing between Southern Africa (South Africa in particular) and Mercosur (especially Brazil). This strategy of using their collective weight in multilateral diplomatic circles allows middle power countries such as Brazil and South Africa and subsequently the regions they represent to "punch above their weight". Thus, through co-operative agreements members of SADC and Mercosur will be able to increase their leverage and have a greater influence in multilateral forums.

Another advantage associated with SADC-Mercosur relations and multilateral-styled diplomacy is its contribution toward a South-South Co-operation. Establishing stronger relations between SADC and Mercosur will be a significant step toward ultimate South-South Co-operation, a goal that a number of "southern" countries have been striving toward but with little success for a number of years. Essentially this is the same point as mentioned above as the intention is to include issues related to the developing world onto multilateral agendas.

South-South Co-operation extends further to cover trade-related issues. This is illustrated by the South African DTI's "Butterfly Strategy", which envisions a trade belt stretching from South America through Southern Africa to South-East Asia. In view of this strategy, it is clear that enhanced SADC-Mercosur relations forms a part of the greater process of trade liberalisation in the developing world. It also appears to be a catalyst in merging political and economic or trade related goals, which is most apparent in South Africa where both the DFA and DTI seem to be pursuing similar objectives with a common vision in South America.

Chapter 3 also introduced extra regional opportunities made available through relations with Mercosur. These include the possibility of gaining access to other Latin American markets that Mercosur already has agreements with and, most importantly, the opportunities it has to offer with regard to the FTAA. This FTA stretching from Ushuaia in the south to Alaska in the north has countless opportunities for South Africa and other SADC economies. Mercosur appears to be the most viable gateway to the FTAA and the only option SADC has to avoid being excluded from a lucrative future economic opportunity.

Bilateral trade relations between Mercosur and SADC or Mercosur and SACU offer the most immediate and direct benefits available. Prospects of developing trade relations and even an FTA with Mercosur open a broad number of opportunities in terms of market access and areas of industry co-operation. Chapter 4 explored the highly complex issue of developing an FTA, which evidently involves a number of factors that need to be considered as well as stakeholders that need to be consulted.

An FTA with Mercosur is an ideal option as it binds the parties involved to an agreement. In a world that is becoming increasingly divided into regional blocks that are interacting and to a large degree integrating, it is essential that sustainable trade be secured for the future so as to maintain a competitive position. Mercosur's potential as a market of the future is widely recognised, and for this reason it is important that South Africa and the rest of SADC move forward quickly in establishing stronger ties with them before it is too late and they are excluded.

Unfortunately, lack of traditional trade and the low levels of current trade do not make matters easy. Trade currently exists almost exclusively between South Africa on the SADC side and Argentina and Brazil on the Mercosur side. This trade needs to be increased and extended to other members using industry and the private sector. For this reason it is important that industry and the private sector are included in the negotiations and decision-making on Mercosur so as to add

legitimacy and transparency to agreements reached. Their contribution toward trade creation will serve as a catalyst in establishing an FTA and once it is in operation, an FTA will facilitate trade, boosting it from its current levels.

The case studies in Chapter 4 illustrated how diverse the effects of an FTA can be on industries. Where an FTA may well be beneficial for one area of an industry it may not extend to another. It is therefore important to consider all the factors involved and be aware of the fact that some industries will assume an offensive position toward an FTA with Mercosur while others may assume a defensive position. Agricultural issues will be particularly contentious and it is essential that these are analysed and dealt with carefully due to their ability to either make or break agreements.

The bilateral trade agreements discussed in Chapter 4 indicate the need to consider SACU as the most viable trade partner with Mercosur at this point in time. Although it does not carry the same weight or stature as SADC, SACU is far more economically organised and already has established trade relations with Mercosur. It is also doubtful at this point whether SADC has the capability of negotiating an FTA with Mercosur and if it will in fact be beneficial for the region. It would however be ideal for relations to exist in a truly inter-regional fashion between SADC and Mercosur as Mercosur will most likely negotiate as a regional block. For this reason it is essential that South Africa and SACU enter into negotiations with the intention of bringing SADC on board as soon as possible. In view of this, negotiations with Mercosur should be conducted in such a way as to allow the rest of SADC to "piggy back" agreements reached between Mercosur and SACU. Therefore the establishing of an FTA between SACU and Mercosur will be part of the process of ultimately creating a transatlantic FTA between SADC and Mercosur.

5.3. The Road Ahead?

Mercosur is clearly a region with a great deal of future potential. Its status as an emerging economy, its geographical proximity and the common goals and values it shares with Southern African countries makes it a viable partner in the global political economy.

There are a number of other factors indicating that a partnership with Mercosur is an attractive option in the diplomatic or trade arena. These include both bilateral and multilateral advantages, which are extensive. Its huge market potential and economic strength will provide market access opportunities as well as areas of co-operation extending beyond bilateral agreements to international markets on a multilateral level. Diplomatic co-operation and co-ordination, which improves the leverage of developing countries in organisations such as the WTO and the UN, yield benefits achieved through closer ties with Mercosur.

In a globalised world where markets are rapidly liberalising it is important to react quickly. Southern Africa can not afford to be left behind or excluded any longer. In view of this, and considering the current situation in SADC, it would be most appropriate to initially pursue relations with Mercosur using SACU lead by South Africa on the Southern African side. This would allow them to build on currently existing trade flows and continue with the small amount of diplomatic and economic progress already made.

In view of this, preferential trade agreements between Mercosur and SACU should be negotiated and established. This will act as the initial stage in the process of developing an FTA with Mercosur. But, considering the evolutionary nature surrounding the process of integration, deeper integration should not be ruled out, meaning that a customs union similar to that in existence in Mercosur could ultimately be considered. These thoughts are only worth discussing once

preferential agreements are in operation and there is substantial interest in establishing an FTA.

It is however important to bear in mind that the intention should be to include the rest of SADC when the time is right. Therefore agreements reached should be done in such a way as to facilitate their extension to other SADC members.

The aim of these inter-regional relations should be to develop ties between the entire SADC and Mercosur with the hope of creating a transatlantic FTA in the not too distant future.

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