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South Africa-Mercosur:
Long Process, Little Progress

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South Africa–Mercosur: Long Process, Little Progress

Lyal White[1]

Introduction

The relationship between South Africa and the *Mercado Commún del Sur* (Mercosur) is one that was politically initiated and driven. Notwithstanding the lengthy discussions and the first round of free trade negotiations in October 2001, the economic reality is clear: South Africa and Mercosur are competitors, both trying to penetrate the wealthier Northern markets by supplying similar products and services. It has also become apparent that neither South Africa nor Mercosur is a priority for the other, and with trade dwindling between the two it is unlikely that this attitude will change unless drastic alternatives are sought.

Latin America—and particularly Mercosur—has substantial economic potential, particularly for South African business. South Africa has, however, been unable to capitalise on this through discussions and negotiations with Mercosur. Benefits lie beyond merely trade and market access. In pursuing a Free Trade Agreement (FTA) between two competitors such as South Africa and Mercosur it is essential to

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recognise alternative areas of opportunity in less obvious forms of economic co-operation and collaboration.

Chronology of events: South Africa–Mercosur	
26 March 1991	Argentina, Brazil, Paraguay and Uruguay signed the Treaty of Asunción with a view to forming the Common Market of the South (Mercosur).
1 January 1995	Mercosur's free trade zone entered into effect (automobile and sugar remained to be negotiated).
Early 1995	Mercosur's customs union also came into force with a common external tariff of 0–20%.
1996	Chile and Bolivia joined as associate members.
1996–97	Interest shown from South African government in the 'rising star' of regional integration in the developing world.
1998	Former President Nelson Mandela addressed the head-of-state Mercosur Summit in Ushuaia, Argentina.
September 2000	*The Southern African Free Trade Agreement* (SAFTA) is launched
December 2000	South Africa's trade and industry minister, Alec Erwin, signed a 'Framework Agreement for the Creation of a Free Trade Area between South Africa and Mercosur'.
October 2001	First round of FTA negotiations between South Africa–Mercosur began.
4–6 June 2002	Second round of negotiations scheduled for this date *were cancelled.*
24–28 June 2002	First combined trade delegation from Mercosur to visit South Africa.

The current status of Mercosur

Mercosur *is in a state of crisis.*[2] *After the recent political and economic* collapse of Argentina, Brazil is the only viable political and economic voice in Mercosur. While both Uruguay and Paraguay are by no means in a state of collapse, their size simply gives them minimal economic and political influence in both the region and the greater global context, leaving Mercosur in a very weak position.[3]

Comparative size of Mercosur members		
	GDP ($ billion) (1999)	*Population (million) (1999)*
Argentina	283.2	36.6
Brazil	751.5	168.2
Uruguay	20.8	3.3
Paraguay	7.7	5.4
Bolivia	8.3	8.1
Chile	67.5	15
Mercosur total	1,139	236.6
Source: *www.worldbank.org*		

The Argentine crisis was the accumulation of a crippling four-year recession in the country, and a general economic slowdown in the region. Following a substantial increase in intra-regional trade,[4] contributing significantly to the economic growth and political coherence of the region in the early 1990s, Mercosur entered a period of stagnation. This was largely a result of the Brazilian crisis in 1999 and the subsequent devaluation of the *real*. The devaluation of the Brazilian *real* placed additional pressure on the Argentine economy, still

[2] While this may seem extreme, it certainly does echo the sentiment of a broad number of academics and private sector representatives in the region.

[3] Mercosur was always seen as bringing together the two powerhouses of Latin America—Brazil and Argentina, and ending the longstanding rivalry and paranoia between the two.

[4] Intra-regional trade increased by 300% between 1990–96.

suffering from the repercussions of the 'Tequila' crisis[5] and a failure to adjust its economy to the highly competitive international environment. A devalued *real* not only slowed down trade flows between Argentina and Brazil, it also placed Argentina's monetary policy—particularly the convertibility plan—under scrutiny, deepening the economic woes faced by the country. There was therefore a strong feeling of resentment toward Brazil, which resulted in a political rift between the two largest members of Mercosur, each pursuing totally different macro-economic policies. This undermined the original idea of deepening Mercosur to establish a monetary union.

Trilemmas in Mercosur countries prior to the Argentine crisis				
	Argentina	***Brazil***	***Paraguay***	***Uruguay***
Exchange rate regime	Fix	Flexible	Crawling peg	NER[a] target
Capital mobility	Free	Free	Free	Free
Monetary policy autonomy	No	Yes	Limited	Not in practice

a Nominal Exchange Rate
Source: Van Dijck P & M Wiesenbron (eds), *Ten Years of Mercosur*. Amsterdam: Centre for Latin American Research and Documentation.

The process of deepening Mercosur has not only been smothered by the poor performance of Brazil and Argentina. In recent years Argentina began showing a greater interest in bilateral agreements, acting unilaterally and separately from Mercosur. Carlos Menem, one of the founding fathers of Mercosur, went so far as to say, 'I don't want to belong to the Third World. Argentina has to be in the First World, which is the only world that should exist.'[6] Domingo Cavallo, the previous economic minister reiterated this sentiment in mid-2001 by

[5] The 'Tequila' crisis was essentially the financial crisis that struck Mexico in 1995, which had repercussions throughout the Latin America region and a number of other emerging markets.

[6] Skidmore, P & Smith, T. (1997). 'Modern Latin America, 4th Edition. Oxford: Oxford University Press.

suggesting that Mercosur regresses from a customs union to a free trade agreement, giving its members freedom to pursue FTAs outside the realm of the Mercosur agreement.

In July 2000 the members of Mercosur signed an agreement preventing such unilateral activities between members and non-members. This was an effort, promoted primarily by Brazil, to ensure common ground and a more coherent (and thus weighty) position for Mercosur in the international arena, especially with regard to negotiations between the grouping and the US on the Free Trade Agreement of the Americas (FTAA).

However, the economic position has changed dramatically since the signing of the agreement, forcing Uruguay and even Brazil to pursue an independent agenda. Uruguay, much to the disappointment of its Mercosur neighbours, has entered into trade discussions with the US in an effort to limit its reliance on Brazil and Argentina, and contain its vulnerability to the economic fluctuations that have plagued these two countries. Brazil, meanwhile, has shown an increasing interest in China. Given the exceptional situation in Mercosur at present, no penalties have been issued with both Brazil and Uruguay insisting that nothing concrete has been created. They also claim that should a trade agreement be initiated the inclusion of the rest of Mercosur will naturally take place in the signed agreement. However, the mere fact that unilateral decisionmaking is taking place is a concern. It is an indication that not all members of Mercosur are totally committed to deeper integration.

The political environment in Mercosur, particularly between Brazil and Argentina, has changed since the start of the Argentine crisis in December 2001. Argentina has undeniably been drawn closer to Brazil. The paradox of the crisis is therefore the fact that the disaster, which brought about the collapse of the political, economic and social structures in Argentina, has actually helped overcome the single biggest obstacle in Mercosur—the differing monetary policies in Brazil and Argentina. The devaluation and subsequent floating of the Argentine peso allows for a more co-ordinated macro-economic policy. This, together with the immediate support Brazil offered to its neighbour in distress, provided the political unity required for deeper integration in the region.

Ironically, now that political will and economic congruency—two factors that have long hindered progress in Mercosur—have finally been realised, the lack of economic 'beef' (particularly in Argentina) will paralyse any ambitions for further integration. Mercosur will most likely be on ice for at least another year, or as long as it takes Argentina to stabilise and begin functioning effectively once again.

South Africa–Mercosur: An overview

Over the past four years a great deal of energy has gone into developing stronger political relations between South Africa and Mercosur. This began with the address by President Nelson Mandela[7] at the Mercosur heads-of-state meeting in Ushuaia, Argentina, in 1998, followed by President Thabo Mbeki's attendance at the same summit meeting in 2000 in Florianópolis, Brazil. Mbeki signed a framework agreement pledging South Africa's commitment to developing an FTA with Mercosur. It is clear that the South Africa–Mercosur relationship was politically motivated and driven by the affinity between South Africa and Brazil—the economic and political hubs of their respective regions—particularly evident in the multilateral arena. Together they have been instrumental in shaping the agenda of the WTO to better suit the developing world.

Unfortunately, the drawn-out process, which promised quick results of free trade and market access, has been fruitless. To date, little has

[7] Mandela was the first president of a non-member state to attend and address a Mercosur Summit Meeting.

been achieved in terms of establishing an FTA and economic benefits are yet to be realised. This has led to widespread frustration and criticism from various parties on both sides of the Atlantic. It seems that political motivation has been insufficient to muster similar support in the commercial sector. Whether this is a result of poor propaganda and information dissemination from government departments involved in the process—particularly the South African Department of Trade and Industry (DTI)—or a lack of confidence and ignorance on both sides of the Atlantic is debatable. At this stage it certainly appears to be a combination of the two.

The slow progress on an FTA between South Africa and Mercosur is also largely due to poor timing. As misfortune would have it, South Africa-Mercosur relations coincide with the economic downturn and political problems that have plagued Latin America in recent years. These problems would also explain the poor commercial interaction South Africa has had with Brazil and Argentina. Trade has not increased as predicted initially and has, in some cases, stagnated. Brazil, which is South Africa's biggest trade partner in the region, does not even feature on South Africa's top 25 trade partners. South Africa is equally low on Brazil's list.

Dismal trade figures and poor economic interaction between South Africa and Mercosur could be the reason why South Africa is low on Mercosur's list of priorities. Mercosur has prioritised its external efforts on a South American FTA and the FTAA, followed by an agreement with the EU and then China. These all precede South Africa, which ranks with India and South Korea in terms of importance for Mercosur.

South African trade with Mercosur (R million)

	1998	*1999*	*2000*	*2001 (Jan–Mar)*
Imports to SA	2,484.8	2678	3,674.1	1,010.3
Exports from SA	1,826.8	1,703.1	2,403.1	524.9

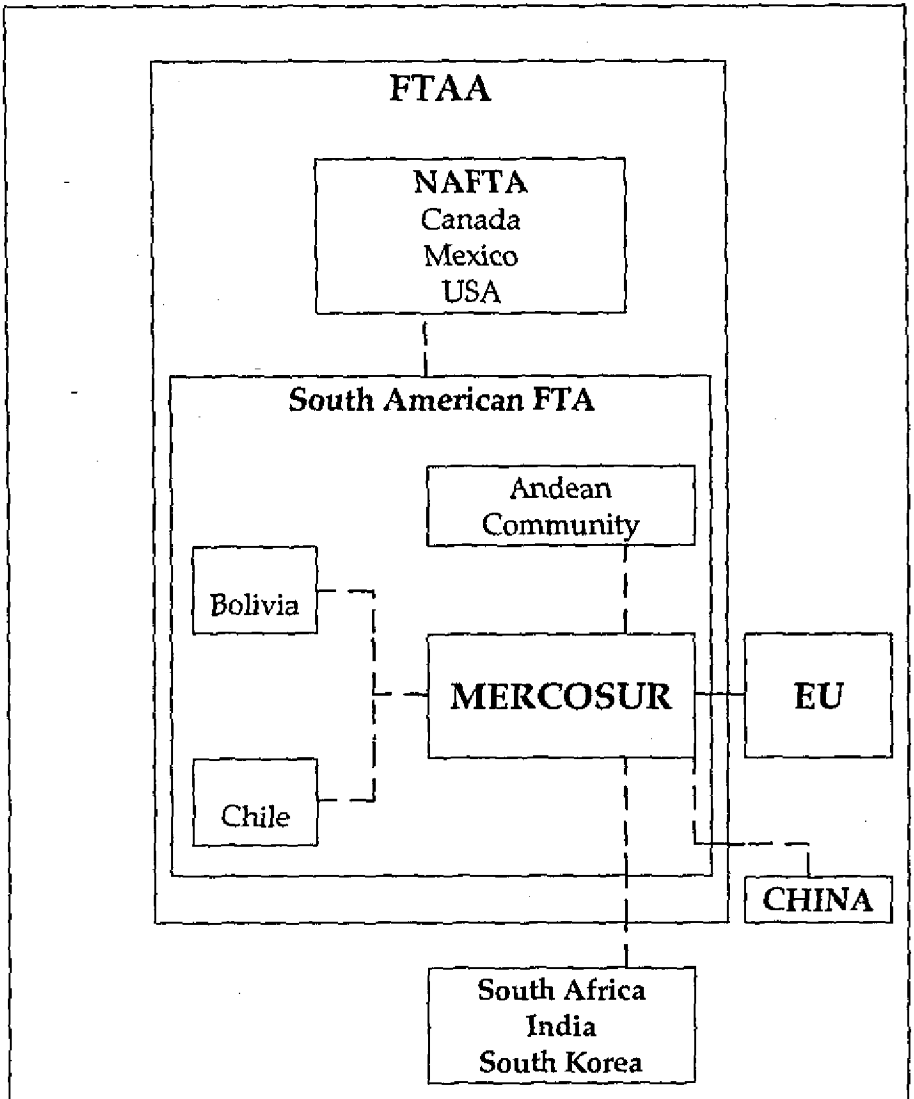
Source: *SA Yearbook of International Affairs 2001/02* and the South African DTI.

South African trade with Brazil ($ million)				
Year	*Imports from Brazil*	*Exports to Brazil*	*Total trade*	*% increase*
1991	75.5	160.8	236.3	-
1992	95.3	172.3	267.6	13/3%
1993	135.3	189.6	324.9	21.0%
1994	244	223.5	467.5	44.0%
1995	336.9	260.9	597.8	28.0%
1996	418.4	291.9	710.3	19.0%
1997	351.4	331.7	683.1	-4.0%
1998	287.4	219.9	507.3	-26.0%
1999	172.4	237.2	409.6	-19.0%
2000	227.6	302.1	529.7	29.0%
2001	256	358.7	614.7	16.0%
Source: Figures compiled by Gladys Lechini, *Universidad National de Rosario.*				

In the global context, FTAs are being driven more and more by economic incentives. There is an international race to gain market access in one country and economic co-operation in another. This sentiment needs to be adopted by the South Africa–Mercosur initiative.

While a politically motivated 'South-South' co-operative agreement is an excellent idea with a noble cause, the pistons driving the initiative and the glue holding the agreement together are economic and commercial activity. These provide resources and infrastructure necessary for the negotiating process as well as for the implementation of an FTA. Unless economic benefits in a South Africa–Mercosur agreement are visible and significant, human and financial resources, which are currently in very short supply and heavily overstretched, will not be forthcoming.

Mercosur external priorities



Source: Van Dijk P & M Wiesebron (eds), *Ten Years of Mercosur*. Amsterdam: Centre for Latin American Research and Documentation, 2002.

Options for future negotiations

While plotting the most ideal path to follow in future negotiations with Mercosur, it is important that South Africa considers not only the signing of an FTA with the region, but the opportunities and inputs each individual member country may make. Research indicates that in terms of market growth and household wealth the long-term outlook looks positive in Latin America while the US and Europe seem to be stagnating or even declining.[8] Mercosur clearly has a great deal to offer, but the unique attributes of members must be understood to ensure that all the benefits of an FTA are realised and certain opportunities of individual members can be honed in on and used to initiate deeper integration.

Looking briefly at three of the members, namely Brazil, Argentina and Uruguay, there are a number of opportunities they offer which should act as incentives for the establishment of an FTA.

Brazil

- Brazil has a huge market of 170 million people.
- The country has a well-established infrastructure, allowing for efficient linkages.
- Sao Paulo is one of the five world mega-cities, attracting a broad number of international industries.
- Curitiba, the central port of Mercosur, is a prime investment destination in the developing world. The combination of an A+

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[8] This information is based on an article by Price J, 'Regional trends: Why Latin America matters? It's a question of demographics'. In the article Price looks at a number of trends and establishes an interesting conclusion with regard to the future of the Latin America region and reasons for a positive investment forecast in the long term. This article along with a number of other very worthwhile pieces can be located at *http://tendencias.infoamericas.com*

rating by Moodys and the high investment returns that characterise Brazil make Curitiba the new industrial location in Brazil.

Argentina

- Despite the recent crisis, Argentina has a long history of competitive production and substantial natural resource potential.
- The depreciating peso has resulted in Argentine products (especially commodities such as agricultural goods) retailing for three times cheaper than previously. Argentina will soon become the most competitive agricultural producer in the world.
- The Argentine crisis has slowed down or, in some cases ended imports. South African products are either a necessity or comparatively cheaper by international standards, which should signal a positive growth of South African exports to Argentina.

Uruguay

- It is economically and politically stable, facilitating foreign investment.
- Montevideo port is geographically close to South Africa.
- The port has excellent facilities and services.
- Uruguay is a Free Trade Zone, offering South African products free access. By adding 40% value to a product in Uruguay, South African goods can gain complete access to the Mercosur market. This offers additional opportunities, in particular to the South African manufacturing sector.

There are clear economic incentives in an FTA with Mercosur. These can and should be realised through the negotiating process, which would incorporate scope for bilateral trade benefits. Since the first round of negotiations in October 2001, little has been accomplished that would facilitate commercial interaction between industries or businesses in South Africa and Mercosur. The fact that the second round of negotiations— scheduled for 4 June 2002—was cancelled at the last minute contributed to the erosion of the much-needed business confidence in the South Africa–Mercosur FTA initiative. Such action also indicates that business should not wait for government structures to lead the way in maximising economic potential.

Indeed, at present a double taxation system continues to exist between South Africa and Mercosur countries. The double tax system is one of the first issues that should be addressed when any form of bilateral trade negotiations or FTAs are pursued.[9] The absence of an agreement has hindered commercial progress between the two and thus stagnated bilateral trade flows. The inclusion of the private sector in the discussions from the outset would have probably addressed this earlier on.

The Mercosur trade delegation scheduled to visit South Africa at the end of June—the first combined Mercosur trade delegation of this kind to leave Latin American shores—indicates a stronger emphasis toward economic and commercial initiatives in the South Africa–Mercosur relationship. This delegation will hopefully boost the importance of the South Africa–Mercosur FTA in the eyes of business on either side of the Atlantic.

The FTA approach

The strategy adopted in developing an FTA can broadly be either an 'all trade' commitment or a 'sector-by-sector' approach. An 'all trade' agreement literally opens up all trade between the countries, irrespective of certain industry or sector clashes. The 'sector-by-sector'

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[9] The double tax system refers to the taxes a company encounters when it conducts business in two different countries. The company is therefore forced to meet the tax requirements of both countries unless there is an agreement between the two countries. This agreement is usually reached early in FTA negotiations or preferential trade agreements so as to facilitate commercial interaction between the two countries and integrate the private sector into the process.

approach is a more prudent method as certain industries are selected to conduct free trade with the bilateral partner as the first stage of a phased-in process toward an eventual FTA.

In the case of South Africa and Mercosur, where there is widespread and severe competition between prominent industries of the various countries, a 'sector-by-sector' approach would be a far wiser and more viable option. However, in most cases the 'sector-by-sector' approach could be problematic with respect to WTO rules and regulations. According to Article 24 of the WTO,[10] an FTA should cover substantially all trade or, if it does not, the parties involved should be of developing nation status. One would expect that a 'sector-by-sector' FTA between South Africa and Mercosur would therefore be a simple process as all parties involved are undoubtedly developing countries. This is however not the case. At the signing of the GATT agreement in 1947 South Africa was registered as a developed country and holds that status in the WTO to this day. But, as is the case with so many multilateral agreements, rules that are broken in practice are rarely disputed, especially when the world at large is breaking those very same rules.

Therefore, a 'sector-by-sector' approach is ideal for South Africa when pursuing FTAs with countries such as China, India, Brazil and Argentina.

At the outset of negotiations between South Africa and Mercosur the idea was to establish an 'all trade' FTA. Both realised quickly enough, however, that this would not be a viable option due to the competitive element of the economies and the fact that Mercosur's four full members meant that there were four decisionmakers trying to conclude an agreement on highly complicated and broad issues.

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[10] See 'Understanding on the interpretation of Article XXIV of the General Agreement on Tariffs and Trade 1994'. *http://www.wto.org*.

With Brazil at the centre of South Africa's Mercosur strategy, both South Africa and Brazil decided *to focus on the automotive industry*.[11] Parts would be manufactured in Brazil and assembled in South Africa. This was a positive step in a 'sector-by-sector' direction. It would also overcome capacity problems and open up the option for both of penetrating African and Asian markets. But the automotive industry is large and complicated because of the high domestic stakes in Brazil and Argentina. It was not even included in the actual Mercosur Customs Union agreement, making the prospect of a quick conclusion between South Africa and Mercosur highly unlikely.

The most convenient process to follow in concluding an FTA with Mercosur would be a smaller industry-to-industry or 'sector-by-sector' approach where the industries or sectors are less prominent and therefore less complicated. This would follow the more pragmatic position that Mercosur has assumed throughout its history of integration.

Mercosur is renowned for undertaking smaller projects first, ensuring success in these small-scale ventures before attempting larger ones. This pragmatic approach should be extended to South Africa–Mercosur relations, establishing inter-sector trade agreements, which should be concluded far quicker and will initiate deeper inter-regional integration and an eventual overarching FTA.

Industries or sectors worth considering include:

- leather,
- rice,
- oils,
- wine,

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[11] The Brazilian automotive industry is roughly 10 times the size of South Africa's automotive industry.

- dried fruits,
- beef,
- ostrich, and
- autoparts.

Once these industries are engaged in FTAs, other larger industries can be incorporated, which is where the long-term potential lies. These include:

- automotive,
- chemicals,
- grains,
- fruits, and
- mining equipment.

Another very important point to consider throughout negotiations is related to the fact that South Africa and Mercosur are direct competitors. They produce the same products at the same time of the year, which is the greatest problem in establishing a transatlantic FTA. It is therefore important to examine opportunities other than simply importing and exporting. The agreement between South Africa and Mercosur should place emphasis on areas of economic co-operation and collaboration. For example, the FTA could facilitate joint ventures.

A 'sector-by-sector' co-operative agreement can help to address certain capacity deficiencies, aiding the penetration of Northern markets more effectively. It can also achieve more competitive production through enhanced knowledge and information accumulation.

The alternative: A free trade agreement with Chile

Bearing the above in mind, a free trade agreement with Chile is a far more pragmatic route for South Africa to take in the short term. A bilateral trade agreement with Chile would most likely be finalised sooner than an agreement with the multi-member Mercosur region.

Comparative figures: Chile, Brazil and South Africa (2000)			
	Chile	*Brazil*	*South Africa*
Population	15.2 million	172 million	42.8 million
GDP (US$)	70.7 million	640 billion	145 million
GDP per capita (PPP)	$8,652	$7,037	$8,908
Gini index	57.5	59.1	59.3
Unemployment	8%	10%	30%
Inflation	5%	8%	6%
Main trade partners	US Japan Germany	Argentina Germany Japan	US Germany UK

Chile would be a far smaller partner than Mercosur. But its size, and the simple fact that South Africa–Chile relations would be completely bilateral in nature, indicates that it would be a less complicated agreement with quicker results. Initially, Chile would be an ideal partner in Latin America, capable of materialising commercial benefits.

Chile is highly experienced in bilateral trade negotiations. Second only to Mexico, it has the highest number of free trade agreements signed. It has concluded agreements with close to every country in the western hemisphere and is therefore the most integrated nation in Latin America. Chile is currently an associate member of Mercosur, thus benefiting from a number of the advantages associated with the FTA It is, however, unlikely that Chile will join Mercosur as a full member due to certain political differences, particularly with regard to macroeconomic policy. Its tariff structure is also far more advanced and flatter than that of Mercosur. In 1998 Chile implemented a policy whereby tariffs decreased, on average, by one percentage point per year. The average tariff rate in Chile is now 7%, and next year when it reaches 6% the process of reducing the tariff rate will be withdrawn.

In 1998 Chile sent a proposal for a bilateral FTA to the South African government. This was either ignored or lost in the bureaucracy, as by April 2002 a response from South Africa was still outstanding. Chile's proposal to South Africa is part of a goal to conduct 90% of its trade through FTAs by 2010–15, the majority of which will be with emerging market partners.

Although there are some similarities between the South African and Chilean economies, the competitive element that hamstrung the South Africa–Mercosur agreement is not as obvious in the case of Chile. Again, the greatest potential lies in commercial co-operation. The mining industry in Chile, including mining equipment and chemicals, is a sector with considerable South African investment already in place and that would undoubtedly benefit from free trade or co-operative agreements.[12] The wine industry also holds definite areas of opportunity. Capacity deficiencies can be addressed through co-operation. Transfer of knowledge as well as clone and variety exchanges are possible in the future, helping to penetrate new markets.

The real advantage of an FTA with Chile is the fact that it is the most ideal springboard for the rest of Latin America. More appropriately, Chile can serve as an 'incubator' for South African businesses looking to operate in Latin America. The simplicity and openness of the economy as well as the favourable business environment make Chile the most logical starting point from where wider agreements can emerge.[13]

Striving towards a free trade area with Chile does have its problems and challenges. Negotiating resources are in short supply in both Chile and South Africa. Chile's negotiating capacity, in particular, is over-stretched with most of its resources dedicated exclusively to free trade

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[12] Anglo's most recent purchase of a mine for $1.3 billion together with the $2 billion already invested places South Africa in the top five investors in Chile.

[13] The corruption perception index of Transparency International ranks Chile 18th out of 91 countries. Brazil and Argentina are ranked 46th and 57th respectively. South Africa is ranked 38 in the same index. While Chile, as an emerging market, compares favourably with the United States and Germany in this index, investors will realise higher returns than those seen from more developed markets.

negotiations with the US and the EU.[14] These agreements should be concluded by the end of 2002, making resources available for such an agreement with South Africa.[15]

The other problem is one that is more politically sensitive. By pursuing an agreement with Chile there is a chance Brazil might be offended. Since the early 1990s South Africa and Brazil have developed a close political relationship, both bilaterally and in multilateral fora. It is important to emphasise that Chile is not South Africa's political alternative to Brazil in Latin America, but merely an additional economic partner.

It is unlikely that Brazil would turn its back on its multilateral partner, South Africa. For South Africa to engage in a free trade agreement with Chile would help fulfil the goal of greater South-South co-operation, a key policy objective for both South Africa and Brazil.

By publicly showing an enhanced interest in concluding a preferential trade agreement with Chile, South Africa could indirectly convince Brazil to fast-track the Mercosur negotiation process. Often, significant progress on an agreement with one party may galvanise the third party into action so as to take advantage of 'first-entrance-status' benefits. The competition brings about quicker results all round, which is

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[14] The EU-Chile '4th Generation' FTA was concluded and signed at the end of May 2002. It is widely regarded as the most advanced trade agreement that the EU has signed with a developing country.

[15] According to the various chambers of commerce in Santiago, Chile, which have an influence over the choice of preferential trade partners for Chile, there is a very strong likelihood that resources will be dedicated to an agreement with South Africa if the South African government shows a clear interest.

essentially the element lacking in South Africa's trade negotiations with Mercosur.[16]

An FTA with Chile may therefore bring with it a win-win situation for South Africa. Either Brazil will push to speed-up the South Africa–Mercosur FTA agreement or South Africa will conclude an agreement with Chile first. Whichever the outcome, South Africa will ultimately gain access to the thriving Latin America market, which is, after all, the aim of any FTA agreement.

South Africa's bilateral trade with Chile, Argentina and Brazil (R million) (2000)		
Country	*Imports to South Africa*	*Exports from South Africa*
Chile	68.7	290.5
Argentina	1,335.5	658
Brazil	2,053.3	1,373.6

Concluding remarks

Following on the heels of its second largest member, Argentina, Mercosur seems to be slipping into a crisis. Mercosur has always been prone to the crises that have swept through the global economy over the last 10 years, given that all its members are emerging markets. In 1995 it miraculously escaped the Mexican crisis, suffering only from a minor hangover during the subsequent 'Tequila effect'. The Asian crisis in 1997–98 did not collapse Mercosur but left it with a flu that brought

[16] This was clearly evident in the case of Mercosur, where both the US and the EU were interested in establishing an FTA. The negotiations slowed down considerably following 11 September 2001 when US interest was withdrawn from the race and there was thus less incentive for the EU to hurry the process. Chile has also used this approach. Both the EU and the US were interested in establishing an FTA with Chile. By making it obvious that negotiations were being pursued with both, Chile managed to sign a free trade agreement with the EU in May 2002 as well as convince a despondent US to conclude a drawn-out eight-year process by the end of the same year.

about the Brazilian crisis in 1999. The complete economic meltdown of its largest member brought Mercosur to the brink of collapse. Once again it managed to emerge, by no means healthy, but nevertheless intact.

Mercosur has suffered numerous shocks in recent years, the most serious being the current Argentine crisis, which many believe to be the final straw that could bring about the unravelling of Mercosur.

The crisis in Argentina has actually brought with it political coherence in the region. This could contribute to further deepening in Mercosur as Brazil and Argentina act more harmoniously. However, in the short term, Mercosur is more likely to be paralysed, as it has been over the last three or four years, until Argentina is able to take up its important position in the region once again and inject the economic energy required.

South Africa–Mercosur dialogue has been a long, drawn-out process with little progress. A Mercosur trade delegation is scheduled to visit South Africa during the last week of June, although it is unlikely that any substantial progress will be made in establishing an FTA between South Africa and Mercosur this year. There are a number of reasons for this:

- A lack of public knowledge and the late cancellation of the second round of FTA negotiations in Pretoria, June 2002;
- the Argentine crisis;
- elections in Brazil;
- the low priority given to South African–Mercosur relations;
- lack of business participation and inclusion in the process;
- the unwillingness of other Southern African Customs Union (SACU) members; and

- 'long summer syndrome'. (Between South Africa and Latin America three months of constructive working time is lost each year between the months of November and February.)

The Brazilian elections in October 2002 could play in the favour of South Africa–Mercosur relations. It is possible that the outgoing president, Fernando Cardoso, will want to leave his mark in Mercosur. He has played a key role in developing relations with South Africa. As the South Africa–Mercosur trade delegation visit is one of the last events before his term ends, the 'Cordoso effect' could convince Brazil, and thus Mercosur, to establish a concrete agreement sooner rather than later.

In addition to the political motive for establishing stronger South Africa–Mercosur ties, economic incentives must be forthcoming if a transatlantic FTA is ever to be created. To capitalise on the clear economic benefits in both South Africa and Mercosur, areas of co-operation and collaboration in specific industries need to be explored. The approach should therefore be toward a more pragmatic 'sector-by-sector' agreement, focusing on less complicated and more viable industries, as opposed to an overarching 'all trade' scenario.

In this respect, it is important to bring the private sector on board. Through consultation, big and small business can be included in the process, thus putting into effect co-operative agreements and even joint ventures.

There are a number of alternatives to those currently being pursued. These may simply be an ordinary preferential trade agreement or an industry-to-industry approach to free trade. A completely different option is to engage in an FTA with Chile.

Chile is the most logical starting point for South African businesses entering Latin America. The bilateral nature of the agreement would make it easier to conclude and may even be more favourable from the perspective of Southern African Development Community or SACU members. A bilateral agreement with Chile will not have the same political implications as South Africa establishing an FTA with a larger regional grouping—Mercosur.

Whichever the case, whether it be an FTA with Chile or with Mercosur, negotiations should not be drawn-out, nor should they be driven only politicaly. Effective negotiations need to take place in the near future, conducted by a well-prepared team eager to conclude concrete agreements. By combining these two factors—speed and economic results—commercial benefits of an agreement with Mercosur will finally be realised.

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