MERCOSUR-SACU RELATIONS: AN EXAMINATION OF THE REVISED ECONOMIC INITIATIVE FOR SOUTH-SOUTH COOPERATION

LA MPEPHO

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MERCOSUR-SACU RELATIONS: AN EXAMINATION OF THE REVISED ECONOMIC INITIATIVE FOR SOUTH-SOUTH COOPERATION

By

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ABSTRACT

The study was conducted to examine economic relations between the Southern African Customs Union (SACU) and the Mercado Commun del Sur (translated Southern Common Market), in short (Mercosur). SACU was established in 1910 and consists of five member countries, namely; South Africa, Botswana, Lesotho, Namibia and Swaziland. Mercosur was created in 1991 and consists of Argentina, Brazil, Paraguay and Uruguay, with Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela being associate members.

The aim of the study was to ascertain whether the Mercosur-SACU relations had created more economic opportunities for both regions. In pursuit of this aim, the study revised and analysed the evolution, development and growth of both Mercosur and SACU. It also analysed the achievements and challenges faced by each of the blocs in their respective regions.

The conclusion of the analysis indicate that, countries which were economically stronger before the establishment of formal bloc-to-bloc relations, Brazil in Mercosur and South Africa in SACU, tended to reap disproportionately high dividends than others. The study further concludes that challenges facing Mercosur and SACU countries should not discourage them in pursuing collective developmental initiatives such as regional integration and South-South Cooperation.
CHAPTER ONE: INTRODUCTION

1.1 Background to the Research

Trading blocs, such as the Southern African Customs Union (SACU) and Mercado Commun del Sur (translated Southern Common Market), (Mercosur) promote inter-regional trade and cooperation, particularly in areas such as technological advancements that benefit member states. Another purpose is to share best practices on overcoming income inequalities within the member states. Intragroup dynamics and differences manifest themselves in discussions between member countries. For instance, Brazil wants to keep Mercosur focused on regional trade while other states, such as Venezuela, want political issues to be part of Mercosur’s mandate. Tariffs, shared borders, political philosophies and socio-economic imperatives persist in creating tensions between existing members and present obstacles to the inclusion of associate members to full membership.

SACU, established in 1910, is the world’s oldest customs union, and consists of five member countries, namely; South Africa, Botswana, Lesotho, Namibia and Swaziland (SACU, 2011). It was reformed in 2002 in an attempt to address some of the shortcomings of the 1969 Agreement. The legitimacy of the Customs Union lies in its linkage of the member states by utilising a single currency and eliminating customs duties between them.

Mercosur was created in 1991 and consists of Argentina, Brazil, Paraguay and Uruguay, with Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela being associate members. It is the largest trading bloc in South America and its aim is to eradicate all tariff barriers through creating a common market and trade policy. Currently it is the world's fourth-largest trading bloc after the European Union (EU), North American Free Trade Agreement (NAFTA), and the Association of South East Asian Nations (ASEAN).

SACU and Mercosur signed a Preferential Trade Agreement (PTA) on 16 December 2004, in Belo Horizonte, Brazil. The PTA was a significant achievement for SACU as it became the first trade agreement concluded by the bloc collectively. In the PTA,
issues such as the Rules of Origin, Sanitary and Phytosanitary (non-tariff barriers), cooperation in the automotive sector and customs cooperation, were not concluded. A Memorandum of Understanding was subsequently signed by the two blocs to further negotiate the outstanding matters. With the exception of cooperation in the auto sector, the outstanding issues were concluded in April 2008 and SACU approved the revised PTA in June 2008 (SACU, 2008).

The aim of the PTA is to realise full economic integration and allow free trade between member states to facilitate socio-economic development. Both blocs represent developing countries that need to work in concert to develop trade between member states, with precautionary measures taken to include special and differential treatment for the smaller and the lesser developed economies on both sides. The special differential treatments form the basis of this research. It is argued in this study that, though there have been significant increases in the number of agreements and trade arrangements made between regional groupings, the benefits are not evenly distributed and have not significantly altered trade patterns and cooperation within and between SACU and Mercosur countries.

The study is based on the premise that regionalism is politically motivated and trade relations are grounded on the existence of a political will to cooperate with others. Schiff and Winters (2003, p. xii) concur that regional cooperation should be studied comprehensively, and that the World Bank, as one of the major international institutions financing regional integration programmes, needs to analyse regional integration within a context that takes political effects (such as governance, peace, stability, etc) into account, as well as carefully examine dynamic economic effects (unemployment, economic growth, poverty, inequality, etc), when advising states on opportunities presented by regional integration.

Countries form regional blocs not only for economic reasons, but also to attain other national and regional objectives such as national security, peace, and assistance in developing political and social institutions. These objectives are unlikely to be exclusively achieved at national level, thus some form of international intervention, such as regional integration arrangements, is required. The above political objectives are important for regional integration arrangements, and policymakers ought to pay
attention to their economic cost. A region that is characterized by instability, protracted conflicts, and wars, amongst others, is prone to produce high levels of poverty, unemployment, underdevelopment, etc. Schiff and Winters (2003, p.12) argue that no economic analysis of regional integration is complete without taking into account the potential benefits of political objectives.

### 1.2 Problem Statement

Trading bloc agreements such as those between Mercosur and SACU are meant to facilitate trade between member states. However, both trading blocs have states that are economically and politically dominant within their respective regions. This marginalises smaller states that are less economically competitive and with less infrastructural development with which to compete. The agreement between Mercosur and SACU is said to economically assist impoverished member states.

Regional Integration Arrangements (RIAs) have been in existence for a number of decades. The post–World War II international system’s configuration of political and economic relations between and amongst states attempted to establish equal treatment of all partners with nondiscrimination as a fundamental principle. Exceptions were permitted, both on pragmatic grounds and for reasons of principle, and among these exceptions were the creation of free trade areas (FTAs) and customs unions. In the first decade these institutions contributed to the political reconstruction of Europe through the creation of the Benelux customs union in 1947, the European Coal and Steel Community (ECSC) in 1951, and the European Economic Community (EEC) in 1957 (Schiff & Winters, 2003, p.5).

Developing countries have increasingly criticised the international trading system. Major criticisms are levelled against the international organisations such as the World Trade Organisation (WTO), World Bank and the International Monetary Fund (IMF). These institutions are criticised for two main reasons: (a) promoting flawed economic policies; and (b) the process through which the policies have been promoted are undemocratic (Barkin, 2006, p. 98). Many of the policies linked to these institutions originate from the Washington Consensus, which was described as promoting market capitalism through prescribing free trade agreements, less government intervention in
the economy, and privatisation (Barkin, 2006, p.99). Developing countries were advised to do what industrialised countries did to generate economic development, that is, adopt export-oriented economic growth policies (Ray, 1992, p.330).

In the 1970s, developing countries united to create the New International Economic Order (NIEO) (Ray, 1992, p.319). The call for NIEO was largely influenced by dependency theory which argued that the terms of trade involving primary products on which developing countries depend, had deteriorated and that they had to institute a path less dependent on relations with developed countries (Ray, 1992, p.320). The creation of NIEO was a direct response to the flawed policies promoted by the Washington Consensus through institutions such as the World Bank, WTO and the IMF.

The dependency theorists’ call for the creation of NIEO was based on the reality that developing countries are disadvantaged in international trade due to trade barriers that include tariffs, restricted market access to developed economies, an absence of skills and technology transfer. These are only some of the challenges in the international trading system and constitute substantial obstacles for developing economies that are difficult to solve through the current multilateral system characterised by the IMF, WTO and World Bank policies. Developing countries continue to explore other avenues to expand their economies, such as regional agreements and cooperation.

The rules of the IMF and the World Bank dictates that countries vote on policies based on their membership contributions. This means that those that contribute less (majority of which are developing countries), play a minimal role in the formulation of policies, which are supposed to help them develop. Developing countries have little political and economic influence unless they act together for reciprocal cooperation. Hence, Article 30 of the Mercosur-SACU PTA “recognises the particular importance of enhancing market access for smaller economies” on both continents (SACU-Mercosur PTA, 2004, Article 30). However, this raises the question of how this ‘market access’ should be attained.

Inter-regional economic and trade cooperation, is one of the mechanisms employed by an increasing number of developing countries to expand mutual trade and investment.
The advocates of free trade and trade liberalisation theory argue that regional arrangements offer possibilities to broaden economic opportunities, attract foreign direct investment, and enhance institutional, technological and infrastructural resources and networks within and between countries. The nature and extent of benefits of inter-regional cooperation and the growing trends towards more intensive and extensive forms of inter-regional trade are analysed in this study, with particular focus to Mercosur and SACU. This study argues that despite the growing trends in regionalism and inter-regional trade, benefits are not evenly distributed and do not address the development needs of the poorer states, such as Lesotho, Swaziland, and Paraguay. However, increased cooperation, interaction and integration amongst developing countries should increase economic complementarities that could help them reap greater benefits from the globalised market (Cernat 2002 in Agatiello 2005).

It is not clear whether south-south trade and regional integration arrangements have been based on critical and in-depth analyses of trends in such arrangements over time and their potential to raise the economic and social profile of developing countries out of poverty empirically established (Achike et al. 2009). The existing literature for successful regional integration among developing countries is minimal, and, it is untested on whether such arrangement renders superior results to either multilateral trade negotiations or unilateral trade liberalisation. Scholars of regional integration concur that trade arrangements could be complementary and can co-exist between states negating the self-interested state argument.

Intra-group economic relations of the member states of Mercosur and SACU show that inter-regional trade does not benefit all signatories equitably and that the conditions for elevating trade relations are also asymmetrical. Thus, intra-regional trade, despite all the praises, cannot be a sole panacea for the development challenges of the countries of the south.

1.3 Theoretical context

Subject to contestations, the most prominent theoretical work on regional economic integration was done by Viner (1950) who approached the regional integration
process by studying the purpose and role of a customs union. The main objective of a customs union and “its major consequence for good or bad, is to shift sources of supply and the shift can be either to lower or to higher cost sources, depending on the circumstances” (Viner, 1950, p.44).

Viner (1950) examined the terms of trade-creation and trade-diversion. When a trade-creation component is dominant, it is if one of the members of a customs union benefits or all benefit and the world at large benefits. Trade-diversion happens when either one or more member countries of a customs union stands to be ‘injured’, or there stands to “be injury to the outside world and to the world at large” emanating from a customs union arrangements (Viner, 1950, p.44). Trade creation was viewed as a positive factor, good for economic growth and trade diversion as discouraging growth. Therefore, the effect of regional trade agreement would depend on whether it creates or diverts trade.

Achike et al. (2009), argue that Viner’s conclusions on regional integration efforts were ambiguous. The ambiguity, argued the authors, was due to preferential trade policies reducing one price distortion between domestic and partner country products, but introducing another between partner and third country products. There is an emphasis on the contrast between preferential tariffs and unilateral tariff reduction. Preferential tariffs are negotiated and agreed by parties in a bilateral or multilateral relationship and unilateral tariff reduction is decided and implemented by one party (Achike et al. 2009).

In this study the subjects of enquiry are SACU and Mercosur. The scope of the latter’s operations covers a wide-range of regional integration issues including a customs union established to facilitate intra-group trade. The two sub-regional organisations signed a PTA to stimulate, facilitate and increase trade relations between their member states. Viner (1950, p.50) distinguishes between a customs union and a preferential arrangement. A customs union, “if it is complete, involves a cross-the-border removal of the duties between the members of the union; since the removal is non-selective by its very nature, the beneficial preferences are established along with the injurious ones, the trade-creating ones along with the trade-diverting ones”.
Preferential arrangements “can be and usually are, selective and it is possible, and in practice probable, that the preferences selected will be predominantly of the trade-diverting or injurious kind” (Viner, 1950, p.501). Preferential tariff relations without a customs union dates back to the early seventeenth century and have been present in “every modern empire except pre-World War I Germany and have been continuously present in some empires” (Viner, 1950, p.15). However, the preferences without a customs union are not as economically good as those with a customs union (Viner, 1950, p.501).

At a multilateral level, the idea of agreements on preferential trade relations was kept alive in Europe during the eighteen century. It was tabled for deliberations at the World Economic Conference, held in Geneva, in 1927, under the auspices of the League of Nations. The conference recommended that “in addition to unilateral and bilateral action, collective action, by means of an enquiry, with a view to encouraging expansion of international trade on an equitable basis by removing or lowering the barriers to international trade be instituted” (Viner, 1950, p.26). It is against this background that SACU and Mercosur signed the PTA to expand bilateral trade between their member states and also between the two regional entities acting collectively.

Schiff and Winters (2003, p.1), argue that while regional agreements vary, all have the objective of reducing barriers to trade between member countries, which implies discrimination against trade with other countries. At their simplest, these agreements merely remove tariffs on intra-bloc trade, but many go beyond that to cover non-tariff barriers and to extend to investment and other policies. Ultimately, the goal of the trade agreement is economic union and involves the construction of shared executive, judicial, and legislative institutions.

The move from ‘closed regionalism’ to a more open model has been the trend of the new regional trade blocs. Many of the trade blocs that were formed between developing countries in the 1960s and 1970s were based on a model of import-substituting development. Regional agreements with high external trade barriers were used as a way of implementing this model. New-wave RIAs are generally more
outward looking and more committed to boosting rather than controlling international commerce (Schiff & Winters 2003, p.2).

Ray (1992, p.413) argues that the thrust toward international integration has a different emphasis in developing countries. In Western Europe, the primary motive, was to avoid war. In the developing world, the motive for integration is, quite clearly, economic. Ray (1992, p.413.) asserts that the hope of the developing states is that by joining markets, the economic system of those affected will benefit from the economies of scale. In many cases, single developing countries, cannot provide a market big enough to make it profitable to set up expensive factories that produce heavy machinery. However, in combination, a factory with access to an enlarged market may be able to survive and help the members of the organisation to develop economically.

Regional integration arrangements do not translate into the development of smaller economies, but due to a number of factors, either maintain the status quo or contribute to economic deterioration. Brazil, Argentina and South Africa have more diversified economies which boost their potential for trade products. Serious challenges to the integration efforts of the developing countries are around the internal obstacles intrinsic to the integration process itself and due to significant differences between and among the countries forming a regional bloc.

In the past two decades, the international economic relations at various levels, namely bilateral, multilateral and regional, have been characterised by an increase in the number of PTAs. The PTAs are an integral part of the study and this includes the process of regionalism with a focus on economic relations. In particular, PTAs focus on mechanisms to promote and increase trade through the removal of barriers, such as tariffs and duties. The increase of PTAs between SACU and Mercosur, “between 2000 and 2007, has improved the conditions of market access for signatory countries” (WTO, 2011, p.127). The WTO has strongly supported the creation of regional economic organisations through the signing of free trade agreements and recently the PTAs.
The improvement in the conditions for market access for signatory countries of regional trade agreements, has been attributed to the “reduction in the number of instances where relative preference margins were negative (i.e., cases where a country faces worse market conditions than its trade competitors)” (WTO, 2011, p.127). In other words, the PTA’s have arguably “restored a level-playing field” for the countries that faced worse conditions of market access than others. The latter argument is based on the understanding that the “overall level of tariffs faced by exporters is low” (WTO, 2011, p.127). However, the preferential tariffs on trade may nonetheless mask bigger effects for certain products and countries. In reality though, preferential tariffs are no longer the only major consideration in PTA formation, there are many other issues involved (WTO, 2011, p.127).

The negotiations on PTAs also cover issues, such as commitments in services, investment, intellectual property protection, technical barriers to trade and competition policy (WTO, 2011, p.128). Examples of service commitments include the national treatment (the principle of giving others the same treatment as one’s own nationals in the provision of services such as health, education, sanitation, etc.), recognition for professional services, provisions to express service delivery in many United States Agreements, and maritime services (such as in the agreement between the European Union and the Caribbean Forum) (WTO, 2011, p.134).

In relation to investment, the PTAs that give protection to firm-specific assets (such as human capital, technical experts, patents) help to encourage more foreign direct investment and profit sharing. Examples are protection against expropriation or a commitment to compensate investors in the case of expropriation. The provision for free movement of corporate personnel is another component motivated by production and profit sharing. Critical in investor friendly PTAs is a provision that helps improve investor confidence through the right to invoke the PTA’s dispute settlement mechanism. In addition, the reduction of barriers to investment also presents more opportunities to enterprises to establish production facilities in a foreign land (WTO, 2011, p.137).

The main aim of trade agreements is to increase trading opportunities between states and “investment agreements seek to protect and promote foreign investment” (WTO,
In this regard, investment could be defined as either “a broad, asset-based way (including both foreign direct investments) or more narrowly using an enterprise-based approach (comprising the establishment or acquisition of a business enterprise)” (WTO, 2011, p.140). Clearly, therefore, preferential agreements do not only cover trade in goods and services, but ought to make provisions for the promotion and protection of investment either complementing or stimulating trade. In this study the main focus is on the nature of preferential arrangement between Mercosur and SACU.

1.4 Research aim and objectives

The study examines both the political and economic objectives of regionalism, with emphasis placed on the economic implications of the persuasion of the political objectives. This is neither a review of the political science of regionalism, nor strictly, a review of Mercosur-SACU trade relations, but rather an analysis of the relationship between the two blocs whose aim is to foster regional economic integration.

The aim of this study is to analyse the relations between Mercosur and SACU and whether the agreement on preferential trade relations assists the expansion of economic opportunities for all member states. The sub focus is to analyse the implementation and challenges of the PTA signed by SACU and Mercosur, and whether the agreement assures market access and economic cooperation between the two regions.

The objectives of this study are:

a) to determine the challenges in implementing the SACU-Mercosur PTA;
b) to ascertain whether the Mercosur and SACU relations have created more economic opportunities for their member states; and
c) to identify and analyse issues of common interest between the two blocs; and
d) to recommend measures to be taken to improve cooperation between the two regional blocs.
1.5 Field and relevance of the study

This is an interdisciplinary study of regionalism, integration and South-South Cooperation. It is a field within the discipline of international relations, which draws on many academic fields most notably, political science and economics, but also includes history, cultural studies and sociology.

1.6 Primary research question

How have the Mercosur-SACU relations contributed to the creation of more economic opportunities for their member states?

1.7 Research Method and Design

An analysis dissertation “summarises and evaluates existing theoretical and empirical literature on a subject. It asks whether existing theories are valuable and existing tests are persuasive and complete” (Van Evera, 1997, p.90). For the purposes of this study the literature analysis or what is called document based research techniques are applied through the use of both primary and secondary sources. Primary sources used are the Mercosur-SACU PTA documentation, as well as Ministerial conference speeches in the implementation of the agreement, official statements of the functionaries of the two blocs, business people media interviews, joint press statements released by the two trading blocs and texts written specifically on the two blocs. Secondary sources used are internet websites, journals and articles written by analysts and observers of the relationship between Mercosur and SACU.

Sources are selected on the accessibility of official documents. The selection process is biased towards a selective and critical reading of sources that synthesise limited information into an analysis of Mercosur and SACU as trading blocs. Caution has been exercised to verify documents’: (a) authenticity: through the referencing done by Mercosur and SACU in their official documents; (b) credibility: accuracy of the primary sources have been confirmed through the sources where they were obtained; and (c) representivity: official documents are released by functionaries of the two blocs and by member states.
In political science, research and analysis, are generally motivated by the fact that the political processes involve history as an essential element. This is an acknowledgement that political processes occur within history and thus need knowledge of the historical context, which is not a teleological (predetermined) view. In this study a balance is struck between the historical explanations and the collection of recent information, as well as the advancement of theoretical ideas on regionalism and trade as mechanism to promote economic growth and development.

1.8 Limitations of the study

A. The nature of the subject matter

Owing to the fact that the Mercosur-SACU relationship, is not yet fully functional within the context of the PTA, it is difficult to project future trends of this relationship based on the 2004 and 2008 PTAs. However, relations between the two regions predate the 2004 PTA hence documentation that predates this year forms part of the study. It could be argued that the pre-2004 documentation is redundant, but it is included as it forms part of the bases for the very existence of the PTAs which are the main subject of the study.

B. Language: considering the fact that Mercosur member countries speak Spanish, the documentation used in the study was translated into English. Information and documentation used were also obtained from English sources with direct representation and first-hand knowledge about the region. Furthermore, the information was also available in English sources, i.e., books, internet, journals and speeches.

1.9 Framework

Mercosur and SACU are amongst the most important regional or sub-regional organisations in South America and Southern Africa respectively. Trade relations between the two blocs are increasingly sound. In 2004, SACU and Mercosur signed a PTA to boost economic relations between the two regions. The PTA is seen as a first step toward the creation of the FTA between the two groupings.
In December 2000, South Africa and Mercosur signed a Framework Agreement. The intended objective of the agreement was to establish a FTA between Southern Africa and Mercosur with South Africa being the key player in the SACU region. The following sections provide a synopsis of the content of the main chapters in this study and are not exhaustive of the issues discussed in each chapter.
OUTLINE OF CHAPTER TWO: Literature review

2.1 Perspective on the literature

The literature available does not focus extensively on Mercosur-SACU relations, but rather on relations between Mercosur and the Southern African Development Community (SADC). In addition, available literature mostly focuses on bilateral issues between member countries of the two groupings. For the purpose of this investigation, extracts from literature regarding SADC-Mercosur and their bilateral relations have been drawn.

2.2 A study conducted by MB Khanyile (2003)

Khanyile investigated the national security relations between South Africa and the Mercosur countries. The findings of this study were based on four propositions.

a) *Proposition I*: “South Africa’s security considerations are increasingly becoming inseparably entangled with those of her south-west Atlantic neighbours, notably Brazil and Argentina” (Khanyile, 2003, p.240).

*Findings:* “South Africa has taken up the challenge of security threats on the western shores quite seriously. This is demonstrated by the fact that South Africa is currently in the process of purchasing corvettes, which are much faster, more versatile in terms of armaments, and provide limited blue-sea capacity. In addition, there are more scheduled and *ad hoc* joint military exercises in the South Atlantic Ocean than is the case in the Indian Ocean. This could be attributed to the fact that there is a change in focus in terms of the nature and scope of security threats. In addition to scheduled multilateral military exercises involving South Africa and the Mercosur countries, the former also has specific bilateral arrangements with Argentina and Brazil” (Khanyile, 2003, p.240).

b) *Proposition II*: “Security, in the broader sense which also includes social and economic dimensions, requires a holistic approach and South Africa’s security
relations with the Mercosur grouping could offer numerous benefits for the
general good of her citizens” (Khanyile, 2003, p.240-1).

Findings: “The emerging approach to security as confirmed in the various
policy documents of the South African Government such as the Constitution
(1996); White Paper on Defence (1996) and the White Paper on intelligence
(1994) seems to indicate that a broader understanding of the concept of
security is being adopted. Furthermore, the current spending patterns which
emphasise social development (for instance, education, health, electricity,
safety and security, and provision for small and medium enterprises), also
seem to attest to this observation. Despite the imperative of social
development, the government has committed itself to long-term strategic
defence packages to re-equip the South African National Defence Force
(SANDF). This demonstrates, beyond doubt, a balanced approach towards
security” (Khanyile, 2003, p.241).

c) Proposition III: “The effects of the global crisis in markets which affected
both developed and emerging markets at the end of the 1990s, showed that
South Africa’s virtual or benign neglect of Latin America can no longer be
sustained if she is serious about being a global competitor of note” (Khanyile,

Findings: “While South Africa is acutely aware of the necessity for increased
investment from, and trade relations with the Latin American countries,
particularly those consisting Mercosur, there appears to be limited success in
this respect. The so-called “butterfly” approach adopted by the South African
Government in respect of trade links confirms the focus on North America and
the European Union (EU), while residual trade takes place on the wings of the
butterfly that is in East Asia and Latin America. With Brazil and South Africa
being regional powers in their respective sub-regions, there is limited
complementarity in their markets and they are also competing for the same
d) **Proposition IV:** “South Africa’s global ambitions, including membership of the United Nations Security Council (UNSC) can only materialise with considerable support from the Latin American countries” (Khanyile, 2003, p. 241).

**Findings:** “South Africa has mobilised every possible international constituency in order to gain recognition as a credible role-player. Some of the strategies used have been active involvement in conflict-resolution and management on the African continent, and also championing the cause of Africa’s renewal programme through New Partnership for Africa’s Development (NEPAD). In addition to these, South Africa assumed chairs of significant international bodies including SADC, the Non-Aligned Movement (NAM), the Commonwealth of Nations and some UN specialised bodies. In all these achievements, it is not clear what role or influence the Mercosur countries have had, but it appears negligible. Despite the perceived failures or blunders such as the handling of the anti-AIDS drug programme and the ‘silent diplomatic’ approach during the apparent breakdown of law and order in Zimbabwe, South Africa is perceived by the international community as a credible ambassador for Africa. It can therefore, be summarised that South Africa has successfully carved a niche in the international arena and does not necessarily need the Latin American countries to maintain that position” (Khanyile, 2003, p. 241).

It is apparent from the foregoing that, Khanyile’s study has focused on security relations between South Africa and Mercosur countries. However, the study has not explored the impact of such relations in South Africa’s relations with other regional neighbours and specifically whether such relations are enhancing or straining South Africa’s relations with her neighbours.

It must also be mentioned that relations between South Africa and Mercosur countries are not limited to security. South Africa has since 1994, embarked on an ambitious drive to deepen regional co-operation through the promotion and protection of trade relations and democracy. This co-operation could only be achieved through increased interactions among and within regions, especially the countries of the South.
2.3 South-South relations

The idea of regionalism in South America gained momentum at the end of the 1980s. The four countries of the southern cone (Brazil, Argentina, Uruguay and Paraguay) tirelessly worked towards the realisation of this idea. There is discernible steady flow of trade and foreign investment among these countries (Bittencourt, 2000).

The idea of Southern African and South American co-operation was introduced as far back as 1995, by the Brazilian Foreign Minister, Ambassador Luiz Felipe Lampreia to his South African and Mozambican counterparts, the late Mr Alfred Nzo and Leonardo dos Santos Simao respectively (Lechini, 1998).

The proposition was included in subsequent gatherings between the diplomats through high level delegations and Heads of State and Government of the Mercosur and SADC member countries. Brazil and South Africa are the key role players in their respective regions. Brazil in pursuit of her foreign policy is in the quest for new avenues for international access and to this end, it views South Africa and the southern Africa region as offering significant opportunities to renew the impetus of Brazil’s African offensive that characterised its foreign policy in the 1970s (Lechini, 1998).

It must be acknowledged, however, that the concept of bringing together the two southern regions of Africa and South America was never conceived to be a simple and a straightforward project. Speaking in the Sao Paulo Conference in 2000, Carlos Bittencourt (of the Brazilian Business Council) stated that both regions are confronted by enormous economic, political and social challenges that may be considered as signs of fragility, challenges especially apparent in the two countries that seem to be leading the co-operation, South Africa and Brazil.

Bittencourt (2000) also alluded to the fact that, both regions would have to take three important factors into consideration if effective co-operation is to be achieved. These factors are: the characteristics of each of the countries, the present state of relationships within the blocs, and the priorities for relationships outside of the blocs.
Greg Mills (2000) stated, when reflecting on the first meeting of Mercosur and SADC held in Johannesburg in 1998, that trade integration is much more than just economics, it is about politics as well. Successful trade is partly the result of political vision and statesmanship. This vision could also be extended to sound personal relationships, which could help overcome hurdles. Economic asymmetry is a defining characteristic of the two regions both within and between the groupings. Mills (2000) expressed a view that, this should not be viewed as hindrance to meaningful regional partnership, but rather at times may assists the integration process. For example, Argentina’s access to Brazil’s comparatively large market has assisted the Argentine economy, thus strengthening intra-regional links. This factor is also relevant and of particular importance in a Southern African context given South Africa’s domination of the region’s economy, accounting for over 75 percent of the Gross Domestic Product of the 14 SADC member countries.

It is important to consider in this discussion the fact that relations between the two southern cones are not founded on trade and investment issues alone. The two regions also have common experiences in dealing with transnational crime issues, particularly drug and weapons smuggling and money laundring, as well as peace support operations. Gonçalves (2000) states that co-operation between Southern Africa and South America has been made possible by the existence of the regions’ political will. The regions want to, and have to, co-operate. Gonçalves (2000) argues that both regions have to craft a common and concrete agenda in order to take the relationship from one of mutual understanding to one of mutual profit and development. Another important factor in promoting this region-to-region interaction, is the dialogue among academic institutions, the private sector and government. This dialogue could be facilitated by longstanding academic and research institutions in South Africa, Chile and Argentina.

There are many areas and clear scope for co-operation between Southern Africa and Mercosur, among others being mining, air transport, defence, wines, breweries, etc. There are many initiatives in Southern Africa concerning gaining access to ports and this could be a basis for joint ventures. Co-operation between Mercosur and SACU could have a balancing effect in these regions’ political and economic patterns.
Furthermore, trade relations between Mercosur and Southern Africa could create a more balanced trade in the South Atlantic community (Abreu, 2000).

It should be stressed that co-operation already exists between these two regions in many multilateral issues, such as world trade and its supervising institutions of the World Trade Organisation (WTO), International Monetary Fund (IMF) and the World Bank. This co-operation includes, among other things, exerting pressure on other countries to reduce their trade barriers, as well as the reduction of protections in own markets. The co-operation of the southern cone also exist in terms of ensuring that in policy harmonisation, developing countries are not compelled to make commitments on labour and environmental standards that could work against the interests of their populations and serve as pretext for further protections in developed markets (Abreu, 2000).

2.4 Challenges to Co-operation

The obvious challenge to co-operation between the two blocs is that, all the member countries fall within the category of the developing countries. The latter means that, all these countries are competing for the same resources of the developed countries.

Mills (2000) states the following as general challenges facing Africa and other developing countries:

A) The creation of conditions of economic prosperity in an environment characterised by high levels of unemployment. To achieve this, there is a need to attract Foreign Direct Investments (FDIs) to offset the lack of domestic savings.

B) At the regional level, Africa needs to rid itself of the factors that deter investors and investments. Factors, such as high business costs and concomitant political risks. For Mills (2000) the answer lies in a concerted effort to deregulate economies, improve infrastructure and prevent and solve.

In order to effectively address the above challenges of developing countries, Mills (2000) states that, Africa in particular needs to devote attention in promoting good
governance. This depends on how the continent manages both internal governance and external relationships. Greater commitment, in terms of energy, resources and the political bottom-lines has to be made to end conflicts by negotiations. The growing co-operation between the two regions is, however, not necessarily a smooth unfolding process. There are counter-indicators to this co-operation. Firstly, there is high dependency on primary products by the economies of these countries. This is due to the fact that trade complementarities are not well developed (Cleary, 2000).

Secondly, in some countries there is a low level of industrialisation. Thirdly, in the Southern Africa region, there is a large number of small economies. The latter is a factor normally attributed as contributing to a slow pace in regional integration. Fourthly, there are low levels of intra-regional trade relations and this, accompanied by high dependency on external trade especially with countries outside the region, feeds into slow integration processes, particularly if the objective is to ensure effective integration into the global economy (Cleary, 2000). Lastly, exchange differentiations also counter the integration process. This is a common challenge for both southern cone blocs. For instance, despite the economic sizes of the SACU member countries, when negotiating an agreement on investment and trade arrangements, the investors would have to discuss with all countries, although they have minuscule economies in global terms (Cleary, 2000).

The available data indicates that another challenge in the Mercosur-SACU Co-operation is the inclusion of the sectors that are of mutual benefit. Currently countries are more interested in agreements that benefit themselves the most and in the process further their self-interests. The current relations between the two blocs are not institutionalised and negotiations are inter-governmental in nature. These negotiations also serve as a measuring mechanism in terms of the progress made in promoting links between the blocs. The last round of negotiations was completed in April 2008.
3.1 The political economy of SACU

SACU is the oldest customs union in the world and came into existence on 11 December 1969 with the signing of the Customs Union Agreement between South Africa, Botswana, Lesotho, Namibia and Swaziland. The agreement became fully enforced on 1 March 1970, replacing the Customs Union Agreement of 1910.

A characteristic feature of SACU from its inception has been the growth of asymmetries in policies, levels of development and administrative capacity. After the demise of apartheid in 1994, SACU member countries began negotiations to reform the grouping. In the following sections the study discusses the historical background and consistent challenges confronting the bloc. The aim of this chapter is to provide an analytical discussion of SACU’s political and economic issues. This chapter, however, does not intend to discuss the political and economic issues of each individual member country, but to analyse these from the sub-region’s institutional perspective.

The salient feature of SACU is that South Africa economically dominates the group and the other four members are heavily dependent on South Africa for their trade and investment. Despite South Africa’s population size and economic dominance in the region, some of these countries experience high growth rates and Botswana is a case in point. In the past two decades, Botswana has experienced much higher growth rates than all other member states. Botswana is known for its strong mining industry.

Lesotho, on the other hand, remains one of the poorest economies in the world. The economy of Lesotho partly depends on remittances from migrants working in South African mines. The textile and clothing industries play an important role in the country’s exports, and within SACU, Swaziland’s textile exports to the United States of America is ranked at number three after South Africa and Lesotho (Sparks, 2012, p.1243). Similarly, Swaziland’s economy is predominantly agricultural and employs more than 60 percent of the population in this industry. The country also has large
forestry reserves. Sugar production and processing is the largest single industry and the country’s exports include coal, asbestos, cotton and diamonds.

Namibia joined SACU in 1990 after obtaining independence from South Africa. The country’s economy is dominated by mining, fishing and ranching. Diamonds constitute almost half of the country’s exports and the majority of the working population is in commercial and subsistence agriculture. South African economic activity is driven largely by natural resources but it is a more diversified economy than any other of the other four SACU members. Mineral, metal and agriculture products dominate South African exports.

SACU was created in order to facilitate and maintain the free interchange of goods between the member countries and provides for a common external tariff and a common excise tariff. In 1994, following the formation of the Government of National Unity in South Africa, SACU member states agreed to the renegotiation of the 1969 agreement. The rationale behind the renegotiation of the 1969 agreement was due to the existence of the need to democratise SACU and address the current challenges of the group more effectively. After eight years of negotiations a new agreement was signed in October 2002.

3.2 Achievements and intra-SACU challenges

The 1969 SACU agreement was initially considered a satisfactory deal by all signatories. It kept the sub-regional markets open to South African consumer products and provided a guaranteed source of revenue for the smaller member countries (Lee, 2002, p.7). South Africa, because of her size and contribution advantages in the union, wanted to retain control over tariff decision. On the other hand, the economies of the other four members, being rural based, lacked technical and administrative capacity.

As time passed-by all SACU members realised that the 1969 Agreement was fundamentally flawed. This realisation then led to the renegotiation of the agreement, which started in November 1994 and concluded eight years later. The major weakness of the 1969 Agreement was the absence of a collective decision-making right. The
1969 Agreement provided for South Africa alone, to determine the external tariff policy of the customs union.

South Africa’s dominant position in the union always sought to promote and protect the country’s interests of the producers without due consideration of the interests of other member countries (Gibb, 2006, p.584; Bach, 2006, p.3). The aspect of the 1969 Agreement that received most attention is the Revenue Sharing Formula (RSF) designed to distribute the Common Revenue Pool (CRP). RSF applies only to four out of the five member countries. In contrast, the new RSF applied to all member states and was limited by the size of the customs and excise duty pools. Total customs revenue collected would thus be distributed according to each country’s share of total intra-SACU imports. Countries importing more from within the union would receive the largest share of the customs pool (Gibb & Treasure, 2011, p.3). At least theoretically this would encourage trade diversion.

In terms of the RSF, South Africa receives the net amount of customs and excise duties collected after payment has been made to the BLNS (Botswana, Lesotho, Namibia and Swaziland). The RSF was amended in 1976 with the inclusion of a “stabilising factor” that requires that the BLNS receive at least 17% and at most 23% of the value of their imports plus excisable production inclusive of excise duties (Gibb & Treasure, 2011, p.3). In so doing, SACU adopted a “target-rate” of 17% and this applied since 1980. The new SACU Agreement is more comprehensive than the previous 1969 Agreement. The new agreement consists of 51 Articles representing a significant expansion of the scope of the 1969 Agreement that only contained 21 Articles and is based on three main pillars: governance and administration; economic policy and regulation policies; and revenue sharing.

The main objectives of the 2002 Agreements include the:

- promotion of integration of the member states into the global economy,
- facilitation of cross-border movement of goods between the member states,
- establishment of effective, transparent and democratic institutions (to ensure equitable trade benefits to the members),
• facilitation of equitable sharing of revenue from customs, excise and additional duties
• promotion of fair competition;
• increase of investment and economic development; and
• facilitation of the development of common policies and strategies (SACU, 2002; Gibb & Treasure, 2011, p.3).

The 2002 Agreement provided for the establishment of an independent, full-time but administrative secretariat to manage the affairs of SACU. The ‘SACU Tariff Board’ replaced the traditional South African Board of Tariffs and Trade (BTT), which used to make recommendations on tariffs. The technical work of the board would then be subjected to national bodies to be established by each member state. However, the BTT remained although under a different name and carries a national, rather than a SACU mandate. The BLNS should thus develop national bodies to conduct tariff and trade remedies investigations and make recommendations to the SACU Tariff Board. The latter could prove a major challenge for these countries because none of them have expertise in this area (Gibb & Treasure, 2011, p.13; Bach, 2006, p.3).

Trade policy, in terms of the new agreement, has to be agreed jointly by the SACU Council of Ministers. In the interim, however, BLNS should accept the existing tariff policy as a starting point of the new SACU. Earlier agreements did not have provisions for Technical Barriers to Trade (TBT) or Sanitary and Phyto-Sanitary (SPS) Measures. Two Articles of the 2002 Agreement addresses these particular aspects. Article 28 makes reference to the WTO Agreement on TBT and states that “Member States shall strive to harmonise product standards and technical regulations within the Common Customs Area” (SACU, 2002). Likewise, Article 30 on SPS advocate consultation and notes that member states reserve the right to apply SPS measures in accordance with their national SPS laws and international standards. The 2002 Agreement makes provisions for common policies in industry, agriculture, competition and unfair trade practices. The development of common policies, however, remains the responsibility of member states rather than the secretariat.
A critical weakness of the 1969 Agreement was that South Africa monopolised the responsibility of administering tariffs and revenue payments within the union. By contrast the greatest achievement of the 2002 Agreement is the introduction of joint-decision making into all aspects of the customs union and allows for the creation of new and democratic institutions (Soko, 2008, p.59). The challenge of these institutions though is that, their terms of reference are vague and their effectiveness is not yet tested. An additional challenge, which the member states failed to agree on, is the management of the revenue pool. The agreement provides for two years during which South Africa is responsible for administering the pool, after this period this responsibility should be assumed by the Secretariat or any member state.

Another challenge for the union lies in the area of the tariff setting process which appears to be unwieldy. A simple tariff amendment now has to be considered by multiple layers of institutions before it can be implemented (Soko, 2008, p.61). It is unlikely that South Africa’s trade agenda will automatically dovetail with that of the BLNS and this may create difficulties in future unilateral, bilateral and multilateral trade liberalisation endeavours.

3.3 Section B: The political economy of Mercosur

Regional integration in the South American region is not an isolated case. In modern Latin American regions, regional integration is consistently evaluated and re-evaluated. The Mercosur group, from its inception, was not created as simply an economic project; it had clear political orientations based on the goals of peace and democratic stability in South America. The goal of peace and stability has de facto been achieved, through periodic presidential and legislative elections within member countries (Phillips, 2003, p. 231).

The main principles of Mercosur relate to trade, production and investment, but these also transcend and penetrate the broadest political issues, namely the incremental interests and support from all social sectors, especially businesspeople, trade unions and academic circles (Montecinos, 1996, p.121). These interests in turn demonstrate a positive attitude towards the challenges and opportunities presented by integration.
3.4 Achievements and intra-Mercosur challenges

Evidence has been presented that Mercosur is not a new phenomenon that started in 1991. It finds its footing from previous regional integration attempts, such as the Latin American Free Trade Association (LAFTA) formed in 1960, which reconstituted in 1980 to become Latin American Integration Association (LAIA) through the Treaty of Montevideo (Monnet & Schuman, 2005, p.3).

According to Manzella (2004, p.24), bilateral integration between Brazil and Argentina (Mercosur’s biggest economies), was formulated on the premise that progress toward achieving economic integration is more feasible and faster when there are few countries participating, which Peña (1992) succinctly alludes to as “losses in width were compensated by increases in depth”.

Mercosur’s biggest predecessor is the Programa de Integraciòn y Cooperatiòn Argentine-Brasileño (PICAB) or in English (Argentina-Brazil Integration and Co-operation Programme). The 1988 Integration Treaty between Argentina and Brazil created PICAB. PICAB emphasised intra-sectoral complementarity through sectoral agreements, particularly in the capital goods, food, and automotive industries. It also emphasised co-operation on advanced technology, especially in the nuclear and biotechnological fields. The 1985-89 Brazil-Argentine integration process took a gradual and selective approach (Valliant, 2005, p.52).

The inclusion of Uruguay and Paraguay in the Southern Cone integration process was inevitable. Uruguay hosted the negotiation conferences between Brazil and Argentina in Montevideo, which subsequently led to the creation of Mercosur. Besides, Uruguay has strong trade and economic relations with both Brazil and Argentina. These ties have historical and territorial underpinnings. It is against this backdrop that Uruguay could not be left out of a process that was aimed at creating a common market between its two principal trading partners (Valliant, 2005, p.52).

Paraguay on the other hand, lies in at the heart of the River Plate basin and like Uruguay; also has strong political, commercial and energy ties with Argentina and Brazil. It could be argued, therefore, that Paraguay could not afford to be indifferent
in the integration process carried out by its neighbours. It was imperative that she also join the bloc. Mercosur has achieved significant progress in line with its scheduled time-lines. In 1994 the bloc liberalised trade among its members with regard to the reduction of tariffs. The group has been able to establish a free trade zone within its members, and it has created a common customs union comprising a common external tariff for goods traded within the group.

Mercosur has made significant progress on other matters not strictly commercial. Protocols were signed, which dealt with several procedural matters of concern to the administration of justice, protection of investments from extra-regional sources, and the aspects of education. Mercosur is generally regarded as a successful attempt in regional integration in South American history. Its pragmatic decisions and actions have given it status as a beacon in successful regional co-operation (Manzella, 2004, p.34). The crucial lesson to be learned from its success, among others, is that Mercosur Heads of State and Government have over different periods demonstrated both political will and commitment to economic principles common to all member countries. However, Mercosur’s relative success is confronted by internal challenges. Evidence suggests that the main difficulty within the group has been temptations for Brazil and Argentina to take unilateral actions without prior consultation with partners.

There are also growing asymmetries in trade policies among Mercosur member states. Conflicts since 1991 include those arising from the disparity of macroeconomic policies, which led to an Argentine “statistical tax” on imports in 1992, and the automobile conflict from 1995, which still remains a divisive issue between Argentina and Brazil. There is a concern in South America, about the continuing asymmetry between the bigger members (Brazil and Argentina) and the smaller members (Uruguay and Paraguay). Uruguay is a well-established democracy whereas Paraguay is very underdeveloped. Although the big members recognise the existence of the problem neither is currently willing or able to commit the resources necessary to correct this imbalance (Christensen, 2007, p.148). Furthermore, the question on the legal status of the Mercosur group remains unanswered. Brazil insists that the group should remain an intergovernmental organisation, whereas other member states are of the view that, Mercosur should become a supranational body.
Despite, the real and perceived challenges to the sustainability and effectiveness of the group, Mercosur’s creation was a deliberate and conscious decision aimed not at maintaining long standing differences but to strengthen and consolidate coinciding interests of the member states. In fact Mercosur countries traded with each other long before its creation in 1991. It would therefore, be naïve to conclude that institutional and trade deficiencies of Mercosur could lead to it being dismantled.

Although Mercosur is considered successful by some, it is actually plagued by political tensions, which question the effectiveness of the bloc. Tensions within the region, such as those evidenced between Uruguay and Argentina continue to have a negative and debilitating impact on the prospects for strong regional integration. Nonetheless, this state of affairs should not be misconstrued to mean despair on regional integration efforts, but rather seen as an opportunity to reformulate the traditional models of engagement and focus on common regional concerns as building blocks for ‘new integration’ (Christensen, 2007, p.148).
CHAPTER TWO: Literature review

2.1 Introduction

SACU and Mercosur countries are geographically and economically located within the zone of developing countries of the South. With similar historical experiences, such as colonialism and agricultural based economies these countries are confronted with many challenges such as, poverty, underdevelopment and inequality. These core challenges within the two blocs provide insights on the practical interactions and deliberate actions taken by Mercosur and SACU signatories. For the purposes of this investigation, extracts from the SADC-Mercosur literature, including that on bilateral relations, have been drawn.

The term ‘South Atlantic’ in reality has no definitive meaning and scope, and covers both land and water divides. Geographically, South Atlantic refers to the South Atlantic Ocean and in terms of geopolitics includes the rim and littoral states of the ocean (du Plessis in UCLAS, 2003, p.6). SACU and Mercosur states are by virtue of the above explanation of the South Atlantic concept part of the South Atlantic.

2.2 South-South Cooperation

The early 1990s saw the demise of the Union of the Soviet Socialist Republic and the proliferation of democratic regimes in Southern Africa which ushered in a new era regarding trans-Atlantic relations. The interactions between countries on both sides of the Atlantic increased and these were fundamentally underpinned by high-level diplomatic visits culminating in the signing of various agreements between the South American and Southern African countries (Khanyile, 2003, p.95).

The idea of regionalism in South America gained momentum at the end of the 1980s driven by Brazil, Argentina, Uruguay and Paraguay. For example, regional integration in South America started in 1960 with the creation of the Latin American Free Trade Association (LAFTA), which failed to deliver on its mandate and its successor, the Latin American Integration Association (LAIA), which also failed to realise significant regional integration (Roett, 1999, p.1). However, there is now a discernible steady flow of trade and foreign investment between these countries (Bittencourt
The idea of Southern African and South American co-operation was introduced as far back as 1995, by the Brazilian Foreign Minister, Ambassador Luiz Felipe Lamapreia to his South African and Mozambican counterparts, the late Mr Alfred Nzo and Leonardo dos Santos Simao respectively (Lechini, 1998).

After the dawn of democracy in South Africa the idea was taken up in many gatherings between diplomats, high level delegations and Heads of State and Government of the Mercosur and SADC member countries where Brazil and South Africa are key role players in their respective regions. Brazil, in pursuit of its foreign policy, was looking for new avenues for international access and viewed South Africa and the southern Africa region as a significant opportunity to renew the impetus of Brazil’s African offensive that characterised its foreign policy in the 1970s (Lechini, 1998).

The idea of bringing together the two southern regions of Africa and South America was never conceived to be a simple and a straightforward project. Speaking in the Sao Paulo Conference in 2000, Carlos Bittencourt (of the Brazilian Business Council) stated that both regions are confronted by enormous economic, political and social challenges that may be considered as signs of fragility, especially with regard to the two countries that seem to be leading the co-operation, South Africa and Brazil (Bittencourt, 2000).

Bittencourt (2000) stated that both regions should take three important factors into consideration if effective co-operation was to be achieved. These factors include the characteristics of each of the countries; the present state of relationships within the blocs; and the priorities for relationships outside of the blocs. The importance of taking these factors into account was based on the understanding that they play a significant role in, amongst other things, determining the scope and nature of influence of each member country within a group. Furthermore, these factors provide a glimpse of what national interest each state pursues or seeks to achieve through the platforms of multilateral cooperation.

At the initial meeting between Mercosur and SADC held in Johannesburg in 1998, the impetus was that trade integration was about economics, as well as politics.
Successful trade is partly the result of political vision and statesmanship. Brazil and Argentina set aside their distrust and fears of each other and invested through political commitments to developing the region through equal participation and including smaller member states. The commitments included the mechanism for decision-making process through consensus; membership only being open to democratic states; and broadening participation on regional issues to the level of civil society, to mention just a few. Their political commitment initiative is one of the reasons why Mercosur is regarded as a successful regional organisation (Mills & Mutscher, 1999, p.5).

Economic asymmetry is a defining characteristic of the two regions both within and between the groupings. Mills (2000) argues that economic asymmetry is not always a hindrance to meaningful regional partnership, but can also assist the integration process. For example, Argentina’s access to Brazil’s comparatively large market has assisted the Argentine economy, thus strengthening intra-regional links. This point regarding asymmetry of the Mercosur economies was raised in the early years of the Southern Cone bloc by, among others, Pereira (1999) who stated that Brazil accounts for 70 percent of the group’s gross domestic product. However, unlike Mills (2000), Pereira questioned whether this asymmetry would not frustrate the integration efforts, especially the emphasis each member country accords to its economic stabilisation plans. Therefore, given the significance of the above issues, questions are still asked about the best approach to consolidate Mercosur.

The asymmetry factor is also relevant and of particular importance to the Southern African context given South Africa’s domination of the region’s economy. South Africa accounts for over 75 percent of the gross domestic product of the 14 SADC member countries (The Services Group (TSG), 2004), and 93 percent of SACU’s GDP (Kiala, 2009, p.98). There seems to be a disagreement between Mills (2000) who does not think that asymmetries in power necessarily produce potential tensions and Pereira (1999) who questions the commitment of member countries to the regional agenda, especially when unequal economic benefits are evident. Spicer (1999 in Perreira 1999) argues that the dominance of South Africa creates tensions and challenges in managing relations in the region. Perreira (1999) plainly states that the economic dominance of one member of the group contributes to the creation of
stumbling blocks to effective regional integration. The regional tensions of one member’s dominance over others was also seen much earlier by Leistner (1992, p.171) who attributed the creation of the Southern African Development Coordination Conference in 1980 as a means to reduce the region’s economic dependence on South Africa focusing on social imbalances and economic disparities. Finally, Cawtha, du Pisani & Omari (2007, p. 26) argue that regional hegemony has potential to either accelerate or retard organisations.

Relations between the two blocs are not founded on trade and investment issues. The two regions have common experiences in dealing with transnational crime issues, particularly drug and weapons smuggling and money laundering, as well as peace support operations (Bittencourt 2000). Co-operation between countries in Southern Africa and South America is reliant on political will (Gonçalves 2000). Gonçalves (2000) argues that, both regions have to craft a common and concrete agenda in order to take the relationship to the next level. The next level refers to the strengthening of economic and commercial relations between the two regions. It also refers to the creation of relevant institutions to facilitate communication and administer challenges, such as trade barriers and disputes.

Trade relations between Mercosur and SACU have the power to create a more balanced trade in the South Atlantic community (Abreu, 2000). There are many areas with clear scope for co-operation between Southern Africa and Mercosur. Among other industries that hold potential are mining, air transport, defence, wines and breweries. There are also initiatives in Southern Africa concerning access to ports, and this could be a basis for joint ventures. Co-operation between Mercosur and SACU may also have a balancing effect in these regions’ political and economic patterns.

Co-operation already exists between these two regions in many multilateral issues such as world trade and its supervising institutions the WTO, IMF and the World Bank. This co-operation includes among other things exerting pressure on other countries (such as members of the European Union and the United States of America) to reduce their trade barriers, as well as to reduce protections in its own markets, such as the cost of doing business and labour legislation. The co-operation of the southern
cone also exists in terms of ensuring that in policy harmonisation, developing countries are not compelled to make commitments regarding labour and environmental standards that could work against the interests of their populations and serve as pretexts for further protectionism in developed markets (Abreu, 2000).

2.3 South-South trade relations

South-South trade refers to the trade between the developing countries of the South Atlantic and includes the East European and Asian economies in transition from communist systems into market economies (Agatiello, 2005). Trade between developing countries has been growing steadily since the 1980s. In fact, for many developing countries experiencing positive economic growth, other developing countries have become increasingly important export markets. Mills and Mutscher (1999, p.2) contend that globalisation produces national and regional interdependencies, hence in contrast to the Cold War era, wherein emphasis was on collective security, there has been a shift to focus on regional economic arrangements. For the purposes of this study, globalisation is defined as “the interplay, cooperation and integration of the various financial systems of the world via international trade, investment and the distribution of vital information aimed toward the creation of synergy in world markets, production processes and general economic development. It also includes a process that entails free movement of capital, goods, services and labour around the world” (Ijeoma, 2008, p. 48).

Notwithstanding the above, David Morris (in Goldsmith & Mander 1996, p.444) argues that trade has exacerbated disparities in world living standards. Morris believes that the disparities in living standards are an effect of globalisation because export industries employ fewer workers, who earn higher salaries than their countrymen, and because developed countries tend to take out more capital from the developing countries than they invest (Goldsmith & Mander, 1996, p.445). Evidence suggests that increasing intra-regional trade has occurred in most of Asia and Latin America (Agatiello, 2005). Africa has played a lesser role in this regard due to the lack of the much-needed infrastructural resources and of trade complementarities. Trade barriers, however, remain a hindrance in promoting intra-regional trade.
South-South trade renders different interpretations. On the one hand, it is considered a substitute to North-South trade and a tool for nurturing regionalism as an exclusive policy. At the other end of the spectrum, some consider South-South trade an obstacle to multilateralism (Greenway & Miner, 1990 in Agatiello, 2005). Proponents of multilateralism argue that trade liberalisation does not only yield benefits in its own right, but it also has spill over effects on other reforms that contribute to sustainable socio-economic growth (Agatiello, 2005). Hawkins (1999) differs with the view that regional trade arrangements produce obstacles to multilateral cooperation. He argues that in the mid-1990s, 60 percent of global trade was carried out under regional trade arrangements. He further contend that regardless of whether regional arrangements are good or bad, they continue to increase in number, size and complexity (Hawkins, 1999).

A third group argues that South-South trade is an intermediate step, necessary and useful, as developing countries need to move towards global economic integration. Proponents of South-South trade consider it a driving force for lasting peace and progress in the reduction of tariff and non-tariff bearers (Agatiello, 2005). In Central America, the Caribbean and South America, increased intra-regional trade is attributed to political will inspiring the sub-regional integration trends. Agatiello (2005) observed that, in the case of East and Southeast Asia, intra-regional trade has resulted from the geographical dispersion of production processes, with lower-wage countries absorbing the labour-intensive segments and intermediate products dominating the intra-regional exchange. Hawkins (1999) further adds the point that regional trade arrangements marry benefits of regional trade and economic cooperation agreements with an open global trading and investment system.

Since the 1990s South-South trade has increased in terms of its significance. This is attributable to the growth in the share of total trade of developing countries, which has risen from 34 percent in 1990 to approximately 40 percent toward the end of the decade. Related to the latter is the rise of RTAs. The growth of South-South trade could be explained by liberalisation under the General Agreement on Trade and Tariffs (GATT) and the WTO where in a number of sectors, exporters from developing countries continue to face market access barriers and market entry problems in developed countries. As a consequence, these exporters then explore
opportunities from the South. The United Nations Conference on Trade and Development (UNCTAD), (2004, p.5) observed that:

a) “RTAs offer opportunities for economies of scale and specialisation. The latter provides smaller developing economies with an avenue to overcome the constraints of a small domestic market;

b) Trade opportunities in other developing countries, in particular countries with high growth rates, makes developing countries less vulnerable to shifts in demands in developed countries, which are their traditional markets;

c) There have been major changes in the industrial and market structures of the developing countries that have made in general their industries competitive vis-à-vis developed countries, including in developing country markets at regional and global levels;

d) The enhancement of South-South trade is seen as a way of strengthening capacities of developing countries in dealing with the challenges of globalisation and trade liberalisation”.

The above factors are not exhaustive and are not the only explanations for the growth of RTAs. Other factors, such as increase in South-South investments, technological transfers, and enterprise interactions also contribute to the rise of South-South trade relations. While South-South trade is predominantly intra-regional, the inter-regional aspect is more dynamic. The inter-regional component of South-South trade has a potential to provide greater opportunities for identifying complementary products. The emerging global political economy provides an atmosphere conducive for South-South co-operation in trade. Developing countries in Africa, Asia and Latin America have forged a common understanding on the value of global South-South trade co-operation (UNCTAD 2004, p.5).

Agatiello (2005) suggests that South-South trade can be improved through the application of trade promotion services in a well-organised export-oriented policy framework. The framework should include market research, which would analyse trade flows of products, sectors, countries and regions, clear identification of demand and supply capacities, the development of regional information platforms, promotion of business networks and screening the realities and potential of trade related investors and service providers. In addition to the above the framework should also
make provision for trade support services. This task could be achieved through awareness creation and targeted technical assistance. It is also important that sector and market development is achieved through networking events with a regional and sectoral scope alongside institutional capacity building, which includes the involvement of trade support institutions, which are government sponsored, as well as private Agatiello (2005).

One of the challenges confronting South-South trade is the lack of trade promotion infrastructure to encourage bilateral and multilateral trade, such as reciprocal chambers of commerce and mutual recognition of standards and inspection procedures. Developing countries are challenged with improving reliable transport and telecommunication links. It is therefore, against this background of achievements and challenges that the minds and thoughts of the policymakers of both SACU and Mercosur were influenced to work on pragmatic steps in promoting and improving South Atlantic trade relations.

2.4 Security dimension

Southern Africa and South America are both confronted by a common set of challenges. The genesis of the challenges is found in the similarities of the Mercosur and SACU common political past with deep roots in colonialism. Both regions have a history of authoritarian rule, and are experiencing high crime rates, violence, corruption and economic insecurity. Owing to this, governments on both sides should work hard to improve the living standards of their populations.

The nature, scale and distribution of crime differ markedly within the member countries of both regions. South America is a region primarily known for large-scale cocaine production and trafficking, especially Brazil and Colombia. The use of drugs is also growing in the Southern Cone countries (mainly Mercosur members). The production of cannabis herb is at a significantly high level in South America. In 2009, 70 percent of global cannabis plant seizures occurred in South America (World Drug Report released by the United Nations Office on Drugs and Crime (UNODC), 2011, p. 36-37).
South America is concerned about the rising levels of the use of synthetic drugs such as “ecstasy”, amphetamine and cocaine among young people. Table 1 illustrates the reported levels of the three synthetic drugs. Levels on the usage of such drugs are high in Argentina, Uruguay (both Mercosur countries), Chile and Colombia. The dire consequences of such high usage of illicit drugs is demonstrated by the rate of drug-related deaths estimated to be between 12.2 and 31.1 deaths per million population aged 15-64. Cocaine is ranked as the most lethal drug in the region. In the neighbouring regions in Central America and the Caribbean, higher homicide rates are partly linked to organised crime and conflicts related to cocaine trafficking flows and their markets (UNODC, 2012, p.20).

According to Shaw (2000), in Brazil and South Africa, the rate of violent crime is partly a result of the increase in the availability of firearms and the growth of criminal organisations that trade in illegal narcotics. Shaw (2000) continued that, these causes can be attributed to the difficult situations that arise from economic structural changes. The structural reforms are, however, carried out through the application of different models based to each country’s unique circumstances. In SACU, countries that have reported to the United Nations Office on Drugs and Crime (UNODC) were only South Africa and Swaziland. According to the report the two countries provided information on the prevalent usage of cannabis and opioids (UNODC, 2012, p. 17).

The 2012 UNODC annual report falls short in explaining the extent of the problems caused by the usage of these illegal drugs. Due to the absence of reliable data on illicit

<table>
<thead>
<tr>
<th>Country</th>
<th>Ecstasy</th>
<th>Cocaine</th>
<th>ATS (amphetamine-type stimulants)</th>
<th>Age group</th>
<th>Year of estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>2.0</td>
<td>2.9</td>
<td>2.0</td>
<td>15-16</td>
<td>2009</td>
</tr>
<tr>
<td>Chile</td>
<td>1.6</td>
<td>4.9</td>
<td>1.9</td>
<td>15-16</td>
<td>2009</td>
</tr>
<tr>
<td>Colombia</td>
<td>2.8</td>
<td>1.7</td>
<td>3.2</td>
<td>12-17</td>
<td>2005</td>
</tr>
<tr>
<td>Uruguay</td>
<td>-</td>
<td>2.6</td>
<td>1.2</td>
<td>13-17</td>
<td>2009</td>
</tr>
</tbody>
</table>

Table 1 Annual prevalence of the use of stimulants among young people in selected South American countries. Source: UNODC, 2011, p37.
drugs use in Africa as a whole, the UNODC annual reports of 2011 and 2012 do not provide data as to the origins, trade and routes of the abovementioned narcotics. In the same vein, South Africa is by far the largest market for illicit drugs entering Southern Africa and consumption levels are rising (EIU, 2009: 2). The EIU (2009: 2) states that the latter is attributable to the collapse of the apartheid security apparatus and the relaxing of border controls. Increased transnational crime is an antithesis of the liberal internationalism which argues for the removal of artificial barriers between states especially in relation to trade. The relaxation of border controls expanded the range of contacts and communication between people (Burchill, 1996, p. 25) and therefore lax border controls brings with it security challenges concomitant to illicit drug-trafficking.

The sharp rise in drug-trafficking has pushed the United Nations Security Council (UNSC) to repeatedly issue warnings that the growth of drug-trafficking networks could reverse the progress made in improving governance, strengthening the rule of law and peace-building. The UNSC went further to threaten to impose targeted sanctions against any members of governments and security services who are suspected of having dealings with illegal drug-traffickers (EIU, 2009, p. 2). Burchill (1996, p.50) captures a crucial point that free trade agreements are rarely “free” nor are they specifically about ‘trade’. In fact, Burchill (1996, p.50-51) postulates that free trade and market forces have a tendency to overwhelm and even dissolve traditional social relations and institutions as they are a powerful source of social and political change. Even though this is not a main focus of this study, there seems to be exploitable loopholes in the free trade theory and practice and some of these are exploited by illicit drug-traffickers. The correlation between relaxed border control and drug-trafficking is a subject of a separate investigation.

Although not a member of SACU, Angolan authorities have long identified Brazil as a source of cocaine entering Southern Africa. This cocaine originates from Brazil and is shipped to Angola, a country with which Brazil has strong historic, cultural and language connections. It is difficult to estimate accurately the extent of the problem. The UNODC Report (2011, p.37) states that cocaine-use in South America is above global average. This is viewed together with neighbouring regions, such as Central America and the Caribbean. The three regions combined share the statistics of 0.9
percent to one percent of the population aged 15-64 who consume cocaine. The percentages are equivalent to 2.6-3.0 million people or seventeen percent of the world’s cocaine-using population. Therefore, cocaine is the main drug problem in South America, Central America and the Caribbean and it counts for fifty percent of all drug-related treatment demands.

Due to lack of reliable information on drug production and trafficking in Africa, the UNODC (2011, p.41) states that drug-related treatment in Africa (as a continent) identified cannabis as the main drug problem. Cannabis accounts for 64 percent of all drug-related treatment demands on the continent. Cannabis is followed by opioids at 19 percent, cocaine at five percent, methaqualone at four percent, khat at three percent, solvents and inhalants at three percent and sedatives and tranquillizers at two percent (UNODC, 2100). The absence of reliable information on regions and the entire continent makes it difficult to determine the extent of the drugs-related problems in Africa. However, African countries are increasingly being used by traffickers to shop cocaine from South America to Europe and other regions. The 2011 UNODC report states that the absence of information on illegal drugs in Africa is due to a lack of scientific surveys in the region. Therefore, this makes the analysis of drug trafficking at regional and sub-regional level in Africa extremely difficult.

Developments in Southern Africa have not occurred in a vacuum. An important parallel development has been the growth in transnational criminal activities during the 1990s when the region experienced unprecedented criminal activities across national borders. The cross border criminal activities were partly an unintended consequence of open borders. Schiff and Winters (2003, p. 261) argue that “sound international trade policy is a fundamental requirement for economic development. Under almost any circumstances, sound policy includes maintenance of open borders for trade in goods and services and for foreign direct investment.” The ‘openness’ referred to is attained by “reducing barriers to trade and investment even-handedly on all partners, through non-preferential trade liberalisation” (Schiff & Winters, 2003, p. 261).

The open borders argument is one of the central arguments of the globalisation theory of international relations. According to this theory “commercial traders should be
allowed to exchange money and goods without concern for national borders. There should be few legal constraints on international commerce, and no artificial protection or subsidies constraining the freedom to exchange” (Burchill, 1996, p. 55). Globalisation supports “an open global market, where goods and services can pass freely across national boundaries, [and] should be the objective of policy makers in all nation-states. Only free trade will generate the competition that will promote the most efficient use of resources, people and capital” (Burchill, 1996, p. 55).

Regarding the opening of global market and trade, there are opposing schools of thought to the globalisation theory. One of these is the Marxist theory of international relations. According to the Marxist theory the globe has long been dominated by a single integrated economic and political entity, the global capitalist system. Within this system all elements have always been interrelated and interdependent. National economies have long been integrated to such an extent that their very nature has been dependent on their position within a capitalist world economy (Hebden & Jones, in Bayliss, Owen & Smith, 2011, p.144). In other words trade did not introduce the exchange of goods and services beyond national borders, the global capitalist system inherently brought this element. While the intensity of cross-border flows of goods and services may be increasing, this does not necessarily signify the fundamental change in the nature of world politics. The developments in the world are better viewed in the context of deeper structural processes at work (Hebden & Jones, in Bayliss, Owen & Smith, 2011, p.144).

In relation to the efficient use of resources, people and capital the Marxist theory argues that with the development of the “core and periphery, there was no longer an automatic harmony of interests between all workers. The bourgeoisie in the core countries could use profits derived from exploiting the periphery to improve the lot of their own proletariat” (Hebden & Jones, in Bayliss, Owen & Smith, 2011, p. 135). Trade is actually viewed as the persuasion of imperialist ideas. Marxist theory argues that the level of development of any state would be affected by its relations with others. Furthermore, “capitalism actually depends for its continued growth on pre-capitalist societies. These pre-capitalist societies provide sources of cheap labour and markets for goods from advanced capitalist countries (Hebden & Jones, in Bayliss, Owen & Smith, 2011, p. 135). In a nutshell, trade does not always yield the benefits
promoted by the globalisation theory. It is within this context that trade related challenges such as drug trafficking should be understood and examined.

The problem of cross border crime has led to complex inter-relationships on a number of factors. At the lowest level, there are uneven benefits of the process of globalisation, improved trade, communication and financial links, which have made the world a smaller place, not only for licit, but also for illicit activities. A key element has been the increase in the global drug trade. A critical challenge in countering rising crime levels in both regions lies in the lack of co-operation between the police and prosecutors. This is an area of paramount importance given the requirement to build effective judicial systems in the context of democracies. Comparative issues of police transformation common to both regions would provide a clearer picture in attempt to counter the spread of criminal activities (Shaw, 2000).

Human trafficking is another growing criminal activity on both sides of the Atlantic. The United Nations defines human trafficking as follows:

“The recruitment, transportation, transfer, harbouring or receipt of persons, by means of the threat or use of force or other forms of coercion, of abduction, of fraud, of deception, of the abuse of power or of a position of vulnerability or of the giving or receiving of payments or benefits to achieve the consent of a person having control over another person, for the purpose of exploitation. Exploitation shall include, at a minimum, the exploitation of the prostitution of others or other forms of sexual exploitation, force labour or services, slavery or practices similar to slavery, servitude or the removal of organs” (United Nations Convention Against Transnational Organised Crime and Protocols Thereto, 2004, Article 3, p.42).

In Southern Africa comprising of Botswana, Lesotho, South Africa, Swaziland and Namibia, only South Africa has gained international attention regarding human trafficking in the region. South Africa’s economic dominance of the region, in terms of opportunities and the standard of living, serves as a destination for children and women trafficked from other African countries, predominantly Eastern and Southern Africa. Women are trafficked for commercial sexual exploitation. The International Organisation for Migration (IOM) identified nine different trafficking patterns to and from South Africa. Some of these include the trafficking of women for commercial
sexual exploitation and trafficking of women from refuge-producing countries. The latter refers to countries in conflict (Aronowitz, 2009, p. 81-82).

In South America major recruiting and human trafficking source-countries are Brazil, Colombia, Suriname, Uruguay and Venezuela (Aronowitz, 2009, p.95). Brazil and Uruguay share a common challenge with South Africa with regard to human trafficking. Therefore, this common challenge is also an opportunity for inter-regional cooperation, especially in working together to find solutions to the problem and to combat human trafficking. Brazil accounts for 15 percent of human trafficking in South America (Aronowitz, 2009, p.95). Trafficking in South America is related to labour exploitation and sexual exploitation. Labour exploitation mainly affects men who are recruited to work in the agricultural sector. In Brazil the major problem is child prostitution (Aronowitz 2009, p.95). Intra-regional human trafficking is as problematic as international human trafficking. Human trafficking for commercial sexual exploitation is highly ranked in this regard and requires international efforts to combat it (Aronowitz, 2009, p.95). Human trafficking is, among other challenges, one of the motivating factors for closer cooperation between the two regions of the South that is, Southern Africa and South America.

SACU and Mercosur founded their co-operation on the basis of socio-economic matters with the view of improving the well-being of their citizenry. This co-operation is firmly rooted in the realm of strengthening economic ties in order to ensure national security as defined in its modern version. National security is defined as “the ability to preserve the nation’s physical integrity and territory; to maintain its economic relations with the rest of the world on reasonable terms; to protect its nature, institutions, and governance from disruption from outside; and to control its borders” (Khanyile, 2003, p.19).

Spicer (1999) broadens this discussion by describing the Southern African leadership in general, as parochial in outlook, highly nationalistic, and suspicious of the impact of broad-scale economic integration on their sovereign power and political patronage. According to Spicer (1999) this type of leadership creates an unfriendly atmosphere to regional integration efforts, and slowed progress in the adoption and ratification of regional agreements. Therefore, regardless of the rhetoric to forge ahead with regional
cooperation arrangements with Mercosur, SACU is more likely to take longer to implement the joint decisions on what ought to be done to improve relations and well-being of the peoples of the two regions.

National security is viewed as a multi-faceted phenomenon and therefore, requires a multidimensional approach. These dimensions include socio-economic development, political stability, democratic and accountable government, and a civilian controlled military. South Africa and Brazil are party to the Zone of Peace and Co-operation in the Southern Cone (ZPCSA), which was established in terms of the United Nations General Assembly Resolution 41/11 of October 27, 1986. The resolution covered four major areas of the South Atlantic region, namely; socio-economic development; the environment; peace and security; and emancipation of South Africa and its colonial territories (Khanyile, 2003, p.202-3).

ZPCSA is an institution that promotes multilateral co-operation between the two sides of the Atlantic. One of the actions of the ZPCSA is the protection of marine resources in the South Atlantic. Namibia and South Africa joined the ZPCSA in 1990 and 1994 respectively (Khanyile, 2003, p. 202-3). The membership of the two countries assisted the ZPCSA to gain impetus in consolidating peace and security in the Atlantic. For SACU economic and strategic considerations are main concerns for the region’s involvement in ZPCSA. Its vulnerability in drug trafficking and small arms proliferation, and also the need to protect fishing resources, the environment, communication lanes and trade routes on the Atlantic, justify its participation. Cooperation between SACU and Mercosur can be viewed as the need to expand the liberal zone of peace through both security and commerce.

2.5 Maritime Co-operation

The South Atlantic Maritime Area Co-ordination (CAMAS) was founded in 1966 in terms of the Inter-American Treaty (TIAR). CAMAS is a well-established institution and its main aim is to control merchant shipping in which Brazil, Uruguay and Argentina exchange data daily on shipping passing through a designated South Atlantic maritime area. South Africa from the SACU region has an observer status on
CAMAS and in fact South Africa needs to mobilise other neighbouring countries to draw close to CAMAS (Mills, 1997).

Mills (1997) stated that states are brought together by both institutional and functional security concerns. Effective protection of marine resources and environment requires cooperation by institutions. These institutions in turn, demand that regions share information in order to achieve maximum benefits from their limited resources. Manzella (2004) mentions that cooperation should also be pursued in the ‘Economic Exclusive Zone’. He states that exchanges of information between littoral states concerning illegal fishing, coordination of fishery protection and policing practices, as well as the fight against drug trafficking, could lead to effective cooperation. He added that the above should be backed by the harmonisation of national legislation. An additional input by Manzella (2004) was that sea and air control is needed in the South Atlantic Ocean. Clearly therefore, cooperation between SACU and Mercosur is not only desirable, but necessary in order to minimise conflict often generated by contests for control of the natural resources including the waters.

2.6 Challenges to Co-operation

The obvious challenge to co-operation between the two blocs is that, all the member countries fall within the category of developing countries. This means that all these countries are competing for the same resources of the developed countries. Mills (2000, p.15-16) describes the challenges facing Africa and other developing countries as:

(a) “The creation of conditions of economic prosperity in an environment characterised by high levels of unemployment. To achieve this, Mills argued, there is a need to attract Foreign Direct Investments (FDIs) to offset the lack of domestic savings.

(b) At the regional level, Africa needs to rid itself of the factors that deter investors and investments. Factors such as the high costs of doing business and the concomitant political risks. The answer to this, Mills continued, lie in a concerted effort to deregulate economies, improve infrastructure and solve conflicts, to which one could add to also prevent conflicts”.
In order to effectively address the above challenges of developing countries, Africa in particular needs to devote attention in promoting good governance (Mills, 2000). This, however, depends on how the continent manages both internal governance and external relationships. Greater commitment, in terms of energy, resources and the political bottom-lines (peace, stability, accountability, to mention just a few) has to be made to end conflicts through negotiations.

Co-operation between the two regions has counter-indicators. Firstly, there is high dependency on primary products by the economies of these countries. This is due to poorly developed trade complementarities (Cleary, 2000). Secondly, in some (for the purpose of the study, such as Lesotho, Swaziland, Paraguay) countries there is a low level of industrialisation. Kiala (2009, p. 98) argues that SACU has made progress in reducing the dependence of other member countries on South Africa through the reconstruction of the transport infrastructure, giving other member countries (with the exception of Lesotho) an option to liaise directly with the rest of the world, although it remains marginal.

Thirdly, in the southern African region, there is a large number of small economies. These are factors normally regarded as contributing to a slow pace in regional economic integration. Fourthly, there are low levels of intra-regional trade relations and this, accompanied by high dependency on external trade especially with countries outside the region, feeds into slow integration processes especially if the objective is to ensure effective integration into the global economy (Cleary, 2000). Kiala (2009, p.121) links the low levels of intra-regional trade to the absence of strong industries in the region. The high dependence of SACU member countries on customs revenues does not augur well for regional integration. According to Kiala (2009, p.121) industry is concentrated in South Africa. While SACU has an integrated and functioning customs union system, it lacks a regional industrialisation strategy. This is due to the fact that some countries are land-locked (Lesotho and Swaziland) and others have commodity-based economies (Botswana and Namibia).

In contrast to the above scenario in the SACU region, Mercosur has been accredited for achieving significant milestones in intra-regional trade. Machado and Markwald (1999) argue that the rapid expansion of trade among Mercosur countries and the high
level of participation of industrialised products in the trade flows within the group are some of the outcomes that justify a positive assessment of the project to integrate the region. The period 1990-2009 witnessed significant rates of growth of intra-Mercosur exports. The period 1990-1999 saw intra-Mercosur trade grow by 5.3 percent and by 11 percent during the period 2000-2009. The growth rates were higher than what was registered in the 1980s at only five percent. Intra-bloc imports also reported positive numbers in the 1990s and 2000s with recordings of 12.5 percent and 8.5 percent respectively (Amal & Kegel 2012, p. 12). As discussed in the preceding paragraph, the same cannot be said about SACU, which remains characterised by high dependence tendencies.

Fifthly, exchange differentiations counter the integration process. This is a common challenge for both southern cone blocs. For instance, despite the economic sizes of the SACU member countries, when negotiating an agreement on investment and trade arrangements, investors must negotiate with all participant countries, regardless of their restricted and limited economies (Cleary, 2000). The current relations between the two blocs are not institutionalised and negotiations are inter-governmental in nature. These negotiations also serve as a measuring mechanism in terms of the progress made in promoting links between the blocs.

Du Plessis (2003) explains some of the challenges to inter-regional co-operation by providing a general assessment of the developing countries. In the South Atlantic region, the littoral states have different maritime orientations and traditions, and that explains why significance attached to the ocean varies. In South America, as opposed to Southern Africa with the exception of South Africa and to a lesser extent Namibia, maritime relationships are stronger and receive greater recognition than elsewhere in Africa. In the South Atlantic, different states attach significance to different areas of the South Atlantic. For example, Argentina, emphasises the southern part of the ocean, in particular the Malvinas and Antarctica; Brazil the Central and North Atlantic; Uruguay the access routes and sea lines of communication; South Africa, the Southeast Atlantic and the Cape Sea Route; and Namibia off-shore resources. Similarly, there is the assertion that countries in the South Atlantic region attach different meanings and significance to the concept of South Atlantic Co-operation (Du Plessis, 2003).
In relation to security matters, countries in the South Atlantic region do not necessarily have what can be considered a common enemy or external security threat that could act as an integrative force in the region (Du Plessis, 2003). In the context of political and economic realities, the South Atlantic region experiences asymmetries between its member states. This includes the differences in their sources of power, the scope of developmental challenges and priorities, complementarity in economic interests and systems and the relative de-prioritisation of ocean areas and inter-regional links. In addition, the South Atlantic region deals with matters that include, building intra-regional co-operative and integration arrangements, such as the zone of peace, the imperative of intra-continental relations and the existence of preferred special relationships, for instance South Africa-Brazil (Du Plessis, 2003).

The South Atlantic region lacks convergence in terms of macro-economic priorities. There are different perceptions about the global and regional conceptualisation of priorities, limited resources and capabilities, cultural linguistic heterogeneity; the predominance of vertical hemispheric co-operation on a South-North rather than a South-South axis, and the fear of smaller states of hegemonic domination by larger states (Du Plessis, 2003). Wheeler (2004) brought another dimension to challenges confronting Mercosur-SACU relations. He mentioned that the two groupings compete for market access with the same products and that because of this, regardless of how significant the political will is, the economic sectors are less interested in putting their own survival at risk to support South-South Cooperation (Wheeler, 2004). He further cautioned that political and brotherly feelings have to be balanced by the recognition that Mercosur and SACU countries, as well as the countries of the South in general, are competitors for markets in the North and amongst themselves.

With the exception of a South Atlantic zone of peace, the conceptualisation of institutionalised regional integration lacks functional foundation. Mercosur countries have Embassies located in South Africa and there is a need to expand diplomatic relations to other SACU countries by extension in to the SADC region as a whole. A similar need exists for SACU member countries to have diplomatic representation in the Mercosur region (Stahl, 1998). Added to this is the establishment of direct shipping and air links. Transportation costs between the two regions are relatively high because of relatively low trade flows between the two blocs.
Other barriers to trade between the two blocs are related to the language (South American Latin countries use Spanish as an official language while Brazil uses Portuguese), visa restrictions, red tape and crime. In South America, Africa is considered an unknown marginalised continent whilst Latin America in turn is known for drug trafficking. South America also is perceived as having advanced economies with which Africa cannot compete (Stahl, 1998). However, most of these barriers are surmountable especially the ones related to perceptions rather than entrenched positions.

2.7 Opportunities through cooperation

As much as it was necessary to outline the challenges confronting the two blocs, it is equally important to state the potential opportunities of this cooperation. Manzella (2004) alludes to potential benefits of cooperation including the advancement of better financial conditions for the development of industrial and agricultural sectors. The need to expand local markets also came to the fore in that for trade in manufactured products of good quality in international markets, SACU and Mercosur need to be able to collectively offer these at competitive prices. The elimination of tariff barriers could contribute to the stimulation of trade relations.

Some of the known benefits of cooperation extends to the creation of joint ventures between the private and public business enterprises. These efforts increase the potential for economic growth and better economic conditions and a deliberate contribution to the fight against poverty and unemployment. Cooperation should be expanded to other areas such as security, for example, contribution with armed forces to support peace operations, as well as the establishment of mutual mechanisms in cases where insecurity in certain regions threaten peace in other parts of the world (Manzella, 2004). Other opportunities created through mutual cooperation include training exchanges and joint exercises by armed forces in order to improve the interoperability; establishment of scientific, technological and logistic collaboration; and the development of joint common measures to protect the environment (Manzella, 2004).
Cooperation between states yield positive results albeit at varying levels and scope depending on the influence, size and power relations within a regional group and between the members that constitute the group. Cooperation thus brings both benefits and challenges. The extent and scope of these depends on a number of interrelated factors such as internal dynamics within a country, competing national interests and priorities emanating from domestic policies, common and shared challenges that serve as pull factors for closer cooperation. Some of the common and shared interests are related to security, natural resources, such as maritime boundaries and piracy, and developing domestic markets through the elimination of trade distorting factors such as tariffs. However, both opportunities and challenges ought to be addressed with equal determination and vigour in order to foster cooperation.

Among the many challenges facing SACU and Mercosur, there is a critical challenge in the effective administration and management of the economy. The deficiency in regional institutions to manage and consistently implement the organisation’s policies and mandates is a daunting challenge for both regions. SACU and Mercosur have many things in common. The countries on both sides need a long term strategy on how to maintain and enhance existing relations. As political and economic environments are constantly changing these countries need to balance between the competing economic interests amongst themselves.

Drug trafficking is a threat to the emerging democracies of both Southern Africa and South America. Drug cartels engage in turf battles and access to markets and routes. In these battles innocent people fall victim and the government finds itself having to rework its priorities in order to respond to the activities of drug cartels. Cooperation in combating the drug trade in the South Atlantic would bring mutually beneficial rewards. This is an area where focused regional and inter-regional counter drug-trade mechanisms have to be humoured, sooner rather than later. Strong cooperation has to be encouraged and enforced between the law enforcement agencies, such as the police, prosecutors and intelligence structures. However, concerted efforts both from developing and developed societies are needed as this is a challenge that transcends national and regional frontiers.
Khanyile (2003) argues that the illegal narcotics industry is worth about R1, 2-trillion or US$150-billion in global retail sales. Countries on both sides of the Atlantic can co-ordinate their efforts in fighting the spread of this illicit trade. Southern Africa and South America are compelled to work closely with each other not only by their common challenges, such as underdevelopment, poverty, and inequality, but also by a need to collectively address social injustices, such as unequal distribution of income and the need to integrate their economies into the global economy.

Challenges in improving trade relations between SACU and Mercosur, are mainly as a result of little information known about markets on either side of the Atlantic. Both blocs are still dependent on their historical relations with their former colonial masters in particular Spain, the United Kingdom and Portugal. To move away from this situation, Mercosur and SACU members have to take deliberate action to improve trade relations through the implementation, monitoring and evaluation of the PTA. Participation in the regional integration programmes should be promoted and pursued through the participation of civil society. The latter is particularly important in relation to social challenges such as drug trade, addiction and the negative impact of drugs in society. The civil society organisations, such as universities, think-tanks, and community based organisations play an important role in producing knowledge and raising awareness on many social challenges, such as drug trafficking.

Mercosur and SACU, collectively and individually, have to ensure broadened participation of business stakeholders in regional integration and cooperation. The participation of business organisations is highly required not only in the implementation of government-to-government agreements, but in the negotiations of the agreements that directly affects their operations, such as trade and preferential agreements. Ultimately, it is business that has to implement and give meaning to trade and commercial agreements and arrangements. The governments of Mercosur and SACU can only make policy and cannot compel private businesses to do business with other countries except the entities of the state.
CHAPTER THREE: The Political Economy of SACU and Mercosur

3.1 Introduction

Regionalism is a pervasive feature of international relations, manifested in peace-keeping missions, political, economic and cultural cooperation. These interactions are formalised through agreements signed between states especially those that share territorial interests such as borders, natural resources (water, game reserves, etc), security, and organised crime.

For conceptual clarity it is important to understand what is meant by regionalism. A distinction has to be made between regional cooperation and regional integration. According to Baylis, Owen and Smith (2011, p.430) regional cooperation takes place in various forms one of which is functional cooperation, which relates to limited arrangements between states and can be in the form of transport, energy, or health. There is also economic cooperation which refers to commercial agreements for preferential treatment of parties to the agreement but with no provision for harmonisation of domestic rules. Cooperation can also take place in issues such as political values and principles, foreign policy and security policies. Integration on the other hand, takes place when states move beyond the removal of obstacles to formal interaction to create a regional space subjected to a common set of rules. An example of economic integration is manifested by the establishment of free trade areas, customs union, common markets and so forth. Countries in an integrated region should not only harmonise their policies, but also act together with a united voice on global issues.

There are significant challenges both blocs face in deepening regional economic integration. Integration is not yet fully realised in these regions despite the ever-increasing political rhetoric. It is accurate to talk about cooperation over integration within these southern regions. Currently, it appears that integration is misconstrued for political willingness to cooperate and to build relations. However, true integration is a process that leads to the creation of inter-state governance structures. It is important to clarify that cooperation and integration are not necessarily mutually
exclusive processes; cooperation could be considered as a precondition for integration.

In this chapter attention is given to the discussion and analysis of the political economy of SACU and Mercosur. The first section covers the SACU countries and the last section discusses Mercosur countries.

3.2 Section A: SACU countries

In the 1969 agreement, SACU set out its objectives as: maintaining the free interchange of goods between member countries and applying the same tariffs and trade regulations to goods imported from outside the common customs area on a basis designed to ensure the continued economic development of the customs union area as a whole, and to ensure in particular that these arrangements encourage the development of the less advanced members of the customs union and the diversification of their economies, and afford all parties equitable benefits arising from trade among themselves and with other countries (SACU Agreement, 1969, Preamble). In the following sections it is demonstrated that despite the above noble objectives of SACU, there has been more rhetoric than the implementation of plans and programmes aimed at achieving the stated goals. Admittedly, significant progress has been registered in some areas, but not in all arrangements, especially in developing the least developed members of the union.

Mercosur identified four concrete goals for the group, namely; establishing the free circulation of goods, services and factors of production; adopting a common tariff and trade policy; coordinating macroeconomic and sectoral policies; and harmonising domestic legislation. Article V of the Treaty of Asunciòn, explains how this was to be done: there would be progressive, linear and automatic tariff reductions, and non-tariff barriers would be eliminated; macroeconomic policies would be coordinated; a common external tariff (CET) was to be set up; and there would be sectoral agreements to free factor mobility and establish economies of scale (Treaty of Asunción, 1994).
As the oldest customs union in the world, SACU’s aim was to maintain the free movement of goods between the member countries. The origins of SACU can be traced back to 1889, with the creation of a customs union between territories that presently make up the South African state (Davies, 1994, p.1). The union was later extended to Botswana, Lesotho and Swaziland (the BLS countries) in 1895 and to Namibia in 1990, after obtaining independence from South Africa (Kumar, 1991, p.1).

The 1969 Agreement replaced the 1910 Customs Agreement. The establishment of the Trilateral Monetary Agreement in 1986 supplemented the SACU Agreement of 1969. The Monetary Agreement established a Common Monetary Area (CMA) linking South Africa, Lesotho, Swaziland and Namibia in a parallel currency union arrangement. Botswana was also a member of the CMA predecessor Rand Monetary Area Agreement, but later withdrew in 1975 (Davies, 1994:1). The main provisions of the 1969 SACU Agreement through Article 2 emphasised the non-imposition of import duties on goods circulating within the bloc except in specified exceptional circumstances; the setting of the Common External tariff (CET); the establishment of a Common Revenue Pool (CRP) and arrangements for the sharing of revenue (Davies, 1994, p.2).

The 1969 Agreement emphasised the need to maintain the existing arrangement under changed circumstances. It encouraged development, but did not make provisions to promote deeper integration among existing members or to extend the scheme to other countries. SACU has been viewed as a pragmatic trade and payment arrangement among a particular group of countries with a very specific history rather than an integration scheme (Davies, 1994, p.1).

The revised 2002 SACU Agreement is more comprehensive than the previous 1969 Agreement. The new agreement consists of 51 Articles representing a significant expansion of the scope of the 1969 Agreement that only contained 21 Articles. The new agreement is based on three main pillars: governance and administration; economic policy and regulation policies; and revenue sharing. A decision-making mechanism adopted in the new agreement, is described as a “consensual model”, meaning agreement by all parties (Gibb & Treasure, 2011, p.12). Articles 16 and 17...
of the Agreement make provisions for quorums which include all member states, as well as decisions that should be made by consensus, except when reasons are provided to deviate from the consensus model (Gibb & Treasure, 2011, p.12).

The main objectives of the 2002 Agreements include the promotion of integration of the member states into the global economy; facilitation of cross-border movement of goods between the member states; establishment of effective, transparent and democratic institutions which will ensure equitable trade benefits to the members; facilitation of equitable sharing of revenue from customs, excise and additional duties; promotion of fair competition; increasing investment and economic development; and to facilitate the development of common policies and strategies (SACU Agreement 2002).

The Agreement provides for the establishment of an independent, full-time but administrative secretariat, to manage the affairs of SACU. A ‘SACU Tariff Board’ replaced the traditional South African Board of Tariffs and Trade (BTT), which used to make recommendations on tariffs. The technical work of the board is subjected to national bodies which need to be established by each member state. Member countries have to develop national bodies to conduct tariff and trade remedies investigations and make recommendations to the SACU Tariff Board. The latter could prove a major challenge for these countries because none of them have expertise in this area (Kirk & Stern, 2003, p.7).

Although agreed in 2002, in 2012 the National Tariff Boards are yet to be established by other SACU member countries. This is due to capacity constraints in BLNS countries and their fixated dependence on the revenue sharing formula (RSF). The RSF is a unique measure to allocate revenue earnings of the union from customs and excise duties. The 1969 Agreement made provision for the payment of the revenue to only four members of the union, namely Lesotho, Swaziland, Botswana and Namibia. This is was renegotiated in the 2002 Agreement which now makes provision for the total customs revenue collected to be distributed according to each country’s share of total intra-SACU imports, thereby stimulating intra-union trade. Countries that have the highest intra-SACU imports receive the largest share of the CRP. This was also expected to encourage trade diversion within the union (Kirk & Stern, 2003, p.7). In
2009 SACU trade ministers agreed to extend the mandate of South Africa’s International Trade Administration Commission (ITAC) to manage tariff issues on behalf of the union thereby making the proposed SACU National Tariff Boards problematic (Gibb & Treasure, 2011, p.12).

Furthermore, the 2002 SACU Agreement also provides for the creation of a development component. In addition to the payments based on customs duties explained above, union members receive a share of total excise collections, which is called a development component. The payments are worked-out on a formula and not allocated or tied to specific projects. Therefore, this makes the development component an additional compensation mechanism (Kirk & Stern, 2003, p.10). The union, from its inception, never made provisions for integration development plans as the 1969 Agreement was designed to promote and protect South African products and producers with no consideration of the developmental interests of other union members. For example, in the late 1970s and early 1980s, a firm assembling televisions in Lesotho and a fertiliser plant in Swaziland found it impossible to meet the South African Standards and eventually closed down. This could be further explained by the historical origins of the bloc, which was constructed on the basis of a racially divided South Africa and its policies of separate development.

The historic lack of integration development plans is the legacy that has lived to haunt the current efforts to consolidate the bloc. The creation of SACU in 1910 was to consolidate South Africa’s dominance of the union, Article IV reinforced South Africa’s right to determine unilaterally all issues relating to the customs union’s common external tariff:

“The Territories shall, as far as possible, conform to the laws and regulations...within the Union in respect to refunds, rebates, abatements, suspensions, methylation, prohibitions, removals in bond or otherwise and interpretations of the tariff” (Gibb, 2006, p.589-90).

Article 4 removed from the other union members their power to independently increase public revenue. The inequalities and asymmetries built into the 1969 Agreement allowed South Africa to unilaterally determine policy and was characterised by an absence of collective decision-making mechanisms and
dependence of other union members on the goodwill of South Africa. This explains why SACU never developed an integrated regional development plan. Furthermore, the customs union was a temporary arrangement (Gibb, 2006, p.589-90) which outlived its intended lifespan beyond a hundred years. South Africa, driven by a new political vision since 1994, has pursued a regional agenda especially within SACU to replace the arrangement characterised by a treatment of other members as mere providers of migrant labour, services and as ‘captive markets’ for SA exports (Nyirabu, 2004, p.23).

3.3 Achievements of the Southern African Customs Union (SACU)

The successful renegotiation of the 1969 Agreement culminated in the 2002 SACU Agreement. Kirk and Stern (2003, p.7) assert that the SACU Agreement introduced joint-decision making in all aspects of the customs union and allowed for the creation of a number of new and independent institutions. The structure of these institutions is perhaps a little complex, their terms of reference vague and their performance untested, but it is a significant improvement on the previous regime.

Trade policy in terms of the 2002 Agreement has to be agreed jointly by the SACU Council of Ministers. Earlier agreements did not have provisions for Technical Barriers to Trade (TBT) or to Sanitary and Phyto-Sanitary (SPS) Measures. SPS measures protect human, animal, and plant health. The protection is against hazards such as parasites, bacteria, viruses, prions, heavy metals, and residues from pesticides and veterinary drugs. SPS measures are aimed at serving important purposes as indicated above, but also may impede trade and provoke disputes among trading partners (Zahrnt, 2011, p. 217). The 2002 SACU Agreement contains two articles which deal with these issues specifically. Article 28 on TBT make reference to the World Trade Organisation (WTO) Agreement on TBT and states that “Member States shall strive to harmonise product standards and technical regulations within Common Customs Area” (Kirk & Stern, 2003, p. 8-9). Article 30 on SPS advocates consultation and notes that member states reserve the right to apply SPS measures in accordance with their national SPS laws and international standards. Table 2 below depicts the changes made in the 2002 SACU Agreement.
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Common external tariff</td>
<td>Determined by South Africa.</td>
<td>Determined by consensus.</td>
</tr>
<tr>
<td>Common excise duties</td>
<td>Determined by South Africa.</td>
<td>Determined by consensus.</td>
</tr>
<tr>
<td>Revenue sharing Formula</td>
<td>Applied to notional customs and excise pool.</td>
<td>Formula applied to actual customs and excise collections.</td>
</tr>
<tr>
<td>Trade Relations with Third Parties</td>
<td>Permitted subject to obtaining prior concurrence.</td>
<td>Negotiations with Third Parties to take place through a common negotiating mechanism</td>
</tr>
<tr>
<td>Dispute Settlement</td>
<td>Allowed for consultation.</td>
<td>Allows for the creation of a formal structure to make binding recommendations.</td>
</tr>
<tr>
<td>Industrial Development Policy</td>
<td>Excluded</td>
<td>Agreement in principle to develop common policies and strategies.</td>
</tr>
<tr>
<td>Agricultural Policy</td>
<td>Excluded.</td>
<td>Agreement in principle to co-operate on policies.</td>
</tr>
<tr>
<td>Competition Policy</td>
<td>Excluded.</td>
<td>Each Member State to develop its own competition policy and cooperate.</td>
</tr>
<tr>
<td>Unfair trade practices</td>
<td>Excluded.</td>
<td>Agreement to develop policies and specific instruments aimed at addressing unspecified unfair trade practices.</td>
</tr>
</tbody>
</table>

Table 2: Comparisons of the 1969 and 2002 SACU Agreements (Source: Kirk & Stern, 2003, p.12)
The 2002 Agreement introduced a new decision-making mechanism of consensus. The former 1969 Agreement established SACU institutions to help manage the union, but South Africa dominated the terms of the agreement. The institutional structure was kept to an absolute minimum. South Africa pursued unilateralism in terms of SACU customs tariffs, rebates, anti-dumping and countervailing duties, excise and formulation of the SACU tariff policy. The South African Board of Tariffs and Trade (BTT), made unilateral decision that went unchallenged by other SACU members (Gibb, 2006, p.592-3).

The SACU Agreement reflected in Article 31 regarding third parties, states that:

“No Member State shall negotiate and enter into new preferential trade agreements with third parties or amend existing agreements without the consent of other Member States.

And:

Member States shall establish a common negotiating mechanism in accordance with the terms of reference to be determined by the Council (of Ministers”) (SACU Agreement, 2002, Article 31).

Article 31 was aimed at curtailing South Africa’s historic dominance and unilateral negotiation of trade agreements which incorporated SACU members but without legitimate representation, such as South Africa’s Economic Partnership Agreement with the European Union. In the consensus decision-making mechanism, it is the Council of Ministers and National Tariff Boards that should dominate the decision-making process, putting national before regional interests, the latter having been exploited by South Africa under the pretext of regional integration. However, the failure of SACU to establish the Tribunal, Tariff Board and National Bodies reflects on the constrained democratisation agenda of the union by the geo-political reality of South African dominance (Gibb & Treasure, 2011, p.14).

One of the significant achievements of SACU was the three Heads of State and Government Summit held in April and July 2010 and March 2011. The April 2010 Summit was an inaugural gathering of the Heads of State and government under the auspices of SACU (SACU, 2011, p. 2). During the April 2010 Summit, SACU political principals agreed to establish the Heads of State and Government Summit as
a permanent feature of the union’s organisational design and adopted a new vision and mission. At the second summit in July 2010, linkages were drawn between SACU, other regional groupings such as Mercosur and trends (growing relations between developing countries and between these countries and developed countries) in the multilateral platforms and how the union should position itself in response to current international challenges (such as non-tariff barriers to trade, low industrialisation in developing countries, improvement of trade in value-added products) (SACU, 2011, p.2). It is worth noting that 2010 was a centenary year for SACU. Time will tell whether the new enthusiasm created by the centenary celebrations effectively energises union members to work harder and smarter and in unison to deepen integration efforts or was simply a political expediency.

The 2002 Agreement provided SACU with opportunities to bring about the necessary institutional reforms. At the third Summit held in March 2011, resolutions were adopted in relation to SACU’s integration efforts. The Summit agreed the following issues should be the top five priorities that should be addressed with urgency:

(a) “The development of a Regional Industrial Policy should be an overarching objective of the new SACU work programme. Regional industrialization should promote balanced, equitable and sustainable regional economic growth and development in line with the new SACU Vision.

(b) Trade Facilitation across SACU borders has to be a key element in the development of the region. SACU will need to focus very sharply on attaining this objective and how to resolve the technical issues which prevent success.

(c) The review of the Revenue Sharing Arrangement has become a critical task in light of the volatility of customs revenues. The Summit underscored the need for a final and urgent conclusion of this matter in line with the development objectives embedded in the SACU Agreement.

(d) The establishment of SACU’s Common Institutions, such as the Tribunal and Tariff Board, which are provided for in the 2002 SACU Agreement.

(e) The adoption of principles for a Unified Engagement in Trade Negotiations. The Summit decided on principles to underpin unified engagement in trade negotiations” (SACU, 2011, p.2).
In registering its recent achievements, the 2010/11 annual report provides interesting statistics captured in Table 3 below. Data collection remains a challenge for SACU especially with regards to the capturing and compilation of trade data, which make reconciliation a tedious process (SACU, 2011, p.16). However, intra-SACU imports increased by 15.4 percent in the fiscal year 2008/9. The growth was underpinned by country data reflected as follows: Botswana registered a growth of 26.3 percent; Namibia registered a growth of 14.4 percent; and South Africa registered a growth of 0.3 percent. Implicit in the above statistics, is whether the push in numbers is based on value-added products or an increase in the demand for traditional primary commodities.

Furthermore, the data does not describe the type of products exchanged. Therefore, on the above statistics alone, it cannot be concluded that the increase in intra-SACU imports mirrors deepening intra-regional trade, as this should be reflected not only by numbers alone, but also by an increase in the quality of the products being traded.

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>17 165</td>
<td>16 520</td>
<td>19 083</td>
<td>16 879</td>
<td>18 233</td>
<td>25 253</td>
<td>31 898</td>
<td>26.3%</td>
</tr>
<tr>
<td>Lesotho</td>
<td>8 073</td>
<td>7 928</td>
<td>8 358</td>
<td>8 483</td>
<td>9 638</td>
<td>9 246</td>
<td>10 246</td>
<td>10.8%</td>
</tr>
<tr>
<td>Namibia</td>
<td>13 943</td>
<td>16 587</td>
<td>13 534</td>
<td>15 336</td>
<td>17 638</td>
<td>23 205</td>
<td>26 548</td>
<td>14.4%</td>
</tr>
<tr>
<td>South Africa</td>
<td>7 045</td>
<td>13 099</td>
<td>15 162</td>
<td>13 424</td>
<td>13 598</td>
<td>14 770</td>
<td>14 809</td>
<td>0.3%</td>
</tr>
<tr>
<td>Swaziland</td>
<td>12 453</td>
<td>10 937</td>
<td>10 266</td>
<td>10 667</td>
<td>10 195</td>
<td>9 220</td>
<td>19 814</td>
<td>17.3%</td>
</tr>
</tbody>
</table>
3.4 Challenges facing the Southern African Customs Union (SACU)

The five SACU member states namely, Botswana, Lesotho, Namibia, South Africa and Swaziland, show disparities in levels of economic development. South Africa and Botswana are classified as upper-middle income countries, while Namibia and Swaziland are considered lower middle-income countries and Lesotho as a least developed country. Low-income and middle –income economies are sometimes referred to as developing countries. However, the term is only used for convenience as “it does not imply that all economies in a particular region are experiencing similar development or that the economies have reached a preferred or final stage of development” (World Bank, 2012).

The classification of the economies is according to the 2011 gross national income per capita, calculated using the World Bank methods. The low-income economies have a $1, 025 or less; lower middle-income have between $1,026-$4,035; upper middle-income between $4,036-$12,475; and high income have $12,476 or more (World Bank, 2012). In some SACU countries such as, Lesotho and Swaziland, economic growth has been erratic reflecting infrastructure constraints, electricity supply shortages, cyclical mining output, and exchange adjustments, as well as the impact of the global financial crisis. Nonetheless, SACU countries still confront common challenges such as poverty, unemployment, HIV and AIDS, and income inequality collectively from the World Trade Organisation (WTO) Trade Policy Review (2009, p.7).

Table 4 below, illustrates current inequalities in SACU countries as reflected by their gross domestic products (GDP) and the international ratings of world economy. South Africa ranks in the top thirty big economies in the world, whereas Swaziland and Lesotho rank at the bottom of world economies according to the United Nations Human Development Index.
While there are achievements in the 2002 Agreement, the union members are confronted with the management, administration and payments of the common revenue. The 2002 agreement provides for a two-year period during which South Africa would continue to administer the pool, after which this responsibility should be allocated to the Secretariat or any Member State (Kirk & Stern, 2003, p. 9). Twelve years later South Africa is still managing the union revenue. This raises the question of whether South Africa would be willing hand this process to another member state.

It is difficult to obtain reliable and valid data on trade and this compound the frustration regarding the revenue sharing mechanism. Flatters and Stern (2005) argue that in the new agreement, the economic effects of the revenue sharing formula were not well recognised or discussed. Therefore, dealing with administrative problems without due appreciation of their economic implications could result in decisions that are contrary to the interests of the union.

Another challenge for the union is tariff setting, as a simple tariff amendment is considered by multiple institutions, such as South Africa’s International Trade Administration Commission (ITAC) which acts on behalf of SACU to recommend tariff determinations. ITAC in turn submits its recommendations to the Customs Union Commission and the latter reports to the Council of Ministers.

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP purchasing power parity (USD – billion)</th>
<th>Real GDP growth rate</th>
<th>GNI per capita in purchasing power parity (USD-thousand)-constant 2005</th>
<th>Human Development Index rankings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>17,6274</td>
<td>5,05%</td>
<td>13,049</td>
<td>118</td>
</tr>
<tr>
<td>Lesotho</td>
<td>2,4262</td>
<td>5,79%</td>
<td>1,664</td>
<td>160</td>
</tr>
<tr>
<td>Namibia</td>
<td>12,3007</td>
<td>3,8%</td>
<td>6,206</td>
<td>120</td>
</tr>
<tr>
<td>SA</td>
<td>408,2368</td>
<td>3,12%</td>
<td>9,469</td>
<td>123</td>
</tr>
<tr>
<td>Swaziland</td>
<td>3,9778</td>
<td>1,3%</td>
<td>4,484</td>
<td>140</td>
</tr>
</tbody>
</table>

Table 4: 2011 GDP of SACU Member countries (Source: United Nations Public Data, 2011)
trade agenda does not automatically dovetail with that of the BLNS countries (Kirk & Stern, 2003, p.7). Furthermore, the sizes of their economies coupled with the relatively low and undiversified levels of development of the BLNS countries impact on them having a much higher propensity to import from the union and the rest of the world than does South Africa, that has limited dependency on the union for its imports (Flatters & Stern 2005).

Mayer and Zarenda (1994, p.32) mention three historical challenges for SACU that could be considered as losses sustained by the BLS (Botswana, Lesotho and Swaziland) countries in their membership to SACU. The challenges were:

- trade diversion in BLS, due to South Africa’s protection of its own industries by tariffs and quantitative restrictions, both which increased the price of BLS imports;
- loss of fiscal discretion in the BLS countries; and
- the polarisation of economic development towards South Africa to the detriment of the BLS countries.

Kirk and Stern (2003, p.10) argue that throughout its long history, the union has been characterised by severe divergences in policies, levels of development, political systems, and administrative capacity. However, the bloc managed, albeit under daunting political circumstances, to maintain free internal trade behind a high common external tariff, while allowing for large revenue payments to the smaller members.

The renegotiations of the SACU agreement re-opened long standing policy debates, including the extent of trade diversion in SACU and its impact on the development of the lesser developed members. There was also some optimism that the changed political terrain might enable deeper economic cooperation and regional integration in SACU (Kirk & Stern, 2003). This was a departure from the apartheid foreign economic policies which sought to enhance a form of integration based on the primacy of economic considerations over political differences (Mills, 1995).
Similar to many regional groupings SACU members do not have a formal arrangement to harmonise policies (including critical monetary and fiscal policies), but with the exceptions of excise duties, customs tariffs, customs valuation, non-preferential rules of origin and contingency trade remedies this lack (WTO, 2009, p.7). Lesotho, Namibia and Swaziland have a common monetary area with South Africa and have pegged their currencies to the Rand at par. Botswana applies a crawling band exchange rate based on a basket of currencies including the Rand. On the fiscal side, Botswana, Namibia and Swaziland have a relatively narrow tax bases where customs excise duties constitute a major source of public revenues, but makes a portion of South Africa’s fiscal receipts.

3.5 Conclusion

Perpetual technical capacity constraints of other SACU members give South Africa leverage over these countries. This means, that South Africa has an extra responsibility of transferring capacity to these countries. Owing to the foregoing observations, one wonders whether SACU would then be able to cope with the challenges of extending beyond its current membership, given the serious limitations it has both in terms of the material resources and the much needed technical know-how.

The renegotiated SACU Agreement attempts to address the revenue sharing formula. The truth is, despite the transferring the union’s revenue to less-developed members, smaller member countries must reduce their reliance on SACU revenue, and begin to improve and expand their tax base. Deliberate actions to deepen their small industries and diversify their economies must occur.

Notwithstanding, the above challenges, member countries are committed to gradually introduce changes in their structural and economic models. The SACU today is significantly different from the SACU that existed two decades ago. Significant improvements big or small have taken place. Moving into the future, SACU trade relations must orientate from bilateral and regional alliance driven initiatives to more SACU-driven initiatives. External trade relations of SACU have been driven on bilateral agreements by individual member countries, particularly South Africa.
The 2002 Agreement makes provisions for common policies in industry, agriculture, competition and unfair trade practices. These policies remain the responsibility of member states rather than the secretariat (Kirk & Stern, 2003, p.9). This responsibility may not lend itself to the harmonisation of common development policies. For example, the union is not a supranational body, that is, member countries reserve their national sovereignty. Therefore, it is difficult to envisage how member countries could prioritise integration policies above their national development objectives, especially policies related to agriculture and its associated industries. To concede this point the 2010/11 SACU Executive Secretary’s Annual report states that “many aspects of SACU’s agenda remain [sic] work in progress” (SACU, 2011, p.2).

3.6 Section B: Mercosur

In order to place the development of Mercosur in context, it is important to first trace its roots from the previous Latin American regional integration efforts. These efforts were informed by a need and the understanding of the countries in the region to reduce dependence on the developed countries. Latin American countries were influenced by import substitution and integration theories. The Treaty of Montevideo created the Latin American Free Trade Agreement (LAFTA) in 1960, the predecessor of Mercosur. LAFTA’s goal was to eliminate import duties, charges and restrictions as may be applied to imported goods originating in the territory of any contracting party. This elimination had to be achieved through a series of complex negotiations, which included among other things, sectoral and agricultural agreements, common and national schedules. Members of LAFTA would then enjoy benefits of most favoured nation and any benefit given to a third party by a member state was to be automatically and immediately extended to all other members (Laird, 1997, p.2).

Mercosur was established on 26 March 1991 by the Treaty of Asuncion signed by the Presidents of Argentina, Brazil, Uruguay and Paraguay. The Treaty entered into force on 29 November 1991 after it was ratified by all members. The Treaty has 25 Articles in six main chapters covering the purpose, principles and instruments of Mercosur. It foreshadowed the establishment of a common market among the four member countries with free circulation of goods, services, capital and workers as from 1
January 1995 (Laird, 1997, p.4). However, this programme was not implemented in its entirety. The broad principles for dispute settlement were set out and various stages and procedures were elaborated in the Brasilia Protocol for the Settlement of Dispute signed on 17 December 1991 in accordance with Article 43 of the Protocol of Ouro Preto (Laird, 1997, p.4).

Mercosur was perceived as a nucleus of South American integration. Peña (2007, p.5) argues that Mercosur’s goal is to achieve a process of permanent integration. The sustainability of Mercosur, like any other regional bloc, hinges on whether its members perceive more benefits in remaining than in withdrawing from the organisation. Therefore, the Mercosur integration process is grounded in the work of its members devising a dynamic framework of mutual gains and opportunity costs compared to other alternatives.

Mercosur was founded on economic cooperation and integration which provided the organization with a strong political component. The two areas not only relate to the consolidation of democracy and an increase in each country’s capacity to attract investment, but also as a springboard for operating in the South American region. The idea of jointly negotiating trade assisted Mercosur to attain advantages (such as free movement of goods and services) from and to third party countries, especially the United States of America (US) and the European Union (EU), (Peña, 2007, p.5). Comparatively, this latter element of Mercosur has been a sore point for its Southern African counterpart, SACU. The PTA signed by the two blocs in 2004 was the first collective achievement of SACU. The collective bargaining power of SACU was recently tested by the EU in the latter’s divisive individual negotiation of the Economic Partnership Agreements with individual SACU members.

The idea of creating Mercosur was an initiative of Argentina and Brazil, as a follow-up to their process of bilateral integration started in 1986. In 1988 Brazil and Argentina signed a bilateral treaty, which remains in force. And today it is in the bilateral realm where some of the most important economic activities are channelled, such as the automobile industry. The first phase of building Mercosur was the so-called period of transition, which culminated in December 1994 in the Summit of Ouro Preto. The second phase was the installation of the customs union, with the
implementation of a common external tariff. This phase has not been totally completed. At the same time a phase of deep integration was supposed to have begun, focusing on two principles: macroeconomic coordination and joint productive transformation (Peña, 2007, p.6). However, despite passionate rhetoric and some measures designed to take Mercosur into this much more complex phase, very little progress has been made so far in this area and this is discussed further in following sections.

3.7 Mercosur achievements

Malamud (2005, p.423) states that after the global financial crises of 1995–99, Mercosur represented a symbol of gradual resistance to neoliberalism. It is usually considered an association of developing countries that could stand against the US sponsored hemispheric free trade agreement (also known as the Free Trade Area for the Americas-FTAA). Malamud comments that for the left, it attained an ‘epic’ status as a preferred tool to promote social rather than merely economic goals. The key proponents of this view are Aldo Ferrer in Argentina and Samuel Pinheiro Guimarães and Helio Jaguaribe in Brazil (Malamud, 2005, p.423).

For the first 15 years Mercosur achieved moderate successes. Its performance can be measured according to political, economic and international criteria (Bouzas, in Malamud, 2005, p. 426). The political attainments are essentially national and regional: the project has fostered domestic democratic stability and lasting peace among its members. This view is echoed by Alcaniz (2005) who argues that Mercosur’s achievements include the reduction of historical rivalries in an area where inter-state violence has been ruled out, international cooperation has become the norm and high-tension controversies have ceased to exist. In other words Mercosur facilitated increased cooperation in the sphere of high politics.

Mercosur’s political achievements are however, contested by a number of political scientists including Christensen (2007). For instance, Brazil’s upbeat rhetoric about the success of Mercosur has been matched by internal criticisms that the country’s policy positions towards counties, such as Argentina, Bolivia and Venezuela, is costly and based more on the government’s ideological leanings to the left than on rational
approaches to defending the national interests. Put differently, Brazil’s ideological position is seen as hurting relations with other countries such as the US and potentially as a threat to Mercosur’s cohesion, due to the fact that it is the most powerful member of the bloc (Christensen, 2007, p.139).

Critics view Argentina’s contribution in Mercosur, as a country that does not place sufficient loyalty to the bloc but pursues a nationalist trade policy. Argentina wants to ensure the survival of its industrial sectors after having experienced a serious process of de-industrialisation in the late 1990s. After its financial crisis in 2001 and 2002, Argentina defended its protectionist industrial structure. However, Mercosur solutions for economic and financial crisis could be resolved through dialogue and consensus between all member states (Christensen, 2007, p.149-50).

Unilateral nationalist responses, based on differences in interest and perceptions about how to advance the national interest in a context of regional integration, has a potential to create setbacks in the integration process. The recent renationalisation of Argentina’s oil company YPF (Yacimientos Petroliferos Fiscales—“Treasury Petroleum Fields) in April 2012 lends credence to claims of Argentina’s lack of commitment to regional integration and its predisposition to defend its national interests through unilateral decisions at the expense of group cohesion (Heren, 2012).

Mercosur also registered achievements in the economic field. Its members embarked on domestic reforms, and contributed to tripling intra-regional trade in less than a decade. Internationally, the bloc has given its members a degree of visibility that they would not have gained otherwise. Increased visibility is politically and strategically relevant and contributed to foreign investment in the 1990s, a decade of vast capital availability (Malamud, 2005, p.426). However the economic achievements are overshadowed by serious disparities within the bloc.

Table 5 below depicts the nature of economic disparities among Mercosur member countries. As in SACU, the GDP statistics provides indications of deep disparities in the two regional blocs. Brazil and Argentina’s economic dominance overshadows the smaller members in all respects, namely GDP size, human development index, although Uruguay is also doing fairly well in comparison to Paraguay.
### Table 5: 2011 GDP of Mercosur countries (Source: United Nations Public Data, 2011)

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP purchasing power parity (USD)</th>
<th>Real GDP growth rate</th>
<th>Gross National Income per capita in purchasing power parity (constant 2005)</th>
<th>Human Development Index rankings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>445,9886 (billion)</td>
<td>8.87%</td>
<td>14,527</td>
<td>45</td>
</tr>
<tr>
<td>Brazil</td>
<td>2,4767 (trillion)</td>
<td>2.73%</td>
<td>10,162</td>
<td>84</td>
</tr>
<tr>
<td>Uruguay</td>
<td>46,7098 (billion)</td>
<td>5.7%</td>
<td>13,242</td>
<td>48</td>
</tr>
<tr>
<td>Paraguay</td>
<td>23,8771 (billion)</td>
<td>4.04%</td>
<td>4,727</td>
<td>107</td>
</tr>
</tbody>
</table>

The above achievements are not without criticism. It is argued that Mercosur has made very limited progress towards its originally stated objectives (Bouzas, Da Motta Veiga & Torrent, 2002, p.129). They argue that Mercosur is not a customs union, not even an incomplete one. According to GATT (General Agreement on Tariffs and Trade) definitions, it has not even become a full-fledged free trade area. It is ‘an incomplete free trade area with some degree of harmonisation of member states’ and extra-zone commercial policies’ (Bouzas et al. 2002, p.131).

Economic achievements of Mercosur are also not immune to criticism. Uruguay and Paraguay have been dissatisfied with the direction of Mercosur. From 1998, when Mercosur economies began to lose steam, Uruguay’s export profile plummeted from 60 percent in 1998 to 23 percent in 2006. Uruguay’s former president, Tabaré Vázquez, argued that the asymmetries between Mercosur member countries have increased and this has had serious social and economic costs for Uruguay, especially in terms of loss of whole industrial sectors in the economy. On the basis of these concerns Vázquez agitated for the right for the smaller bloc members (Uruguay and Paraguay) to make bilateral trade agreements with the US, arguably the world’s largest market (Christensen, 2007, p.149-50). Clearly this is an indication of the
unequal benefits of economic integration, as much as the process is hailed a success and others view it as a panacea to development challenges, some countries benefit less than expected and usually it is the smaller economies within a particular grouping, as seen with Mercosur.

Internationally though, Mercosur has managed to obtain widespread global recognition that would have been impossible for member states to obtain alone. Recently, Brazil has embarked on extra-Mercosur diplomatic initiatives such as the Zero Hunger Plan with Chile, France and Spain and the Group of 3 with India and South Africa, but Mercosur still is a major actor in multilateral negotiations, be it with the EU, within the Free Trade Area of the Americas (FTAA) or in the World Trade Organisation (Malamud, 2005). Mercosur’s export markets are particularly geographically diversified. About half of its exports are directed toward the Organisation for Economic Cooperation and Development (OECD). Despite the greater distance from European markets, the EU accounted for 21 percent of Mercosur’s exports compared with 17 percent by the United States. Just over 50 percent of Mercosur’s exports go to developing countries, 28 percent of which are absorbed within Latin America (Korinek & Melatos, 2009, p.26).

3.8 Challenges of the Common Market of the South (Mercosur)

Historical challenges of Mercosur are difficult to determine as it was formed 21 years ago. The challenges are current and future oriented in nature. Some of these have been introduced in the preceding section, such as unilateralism, market opportunities (in the case of Uruguay), and lack of commitment or political will by some members, such as Argentina to galvanise domestic support for the integration process. In trade agreements between developing countries or South-South agreements, such as Mercosur, the least developed members bear the costs of trade diversion. Moncarz & Vaillant (2010, p.332) confirmed this in their study of Mercosur intra-group trade. The study revealed that South-South trade in the context of Mercosur has uneven distribution of the costs of trade diversion. Furthermore, even though trade increases due to tariff preferences for members, such developments are not registered in all members as it was the case with Brazil and Paraguay. Only Argentina and Uruguay registered increases in their import patterns. The asymmetries generated by uneven
benefits threaten the cohesion of the group, especially in view of the fact that the registered positive developments are mainly achieved through bilateral agreements and concessions.

There is a common challenge for Mercosur and SACU related to trade statistics. Trade statistics in both regions is not always readily available. This means that data cannot be harmonized. In fact this challenge points to a more serious one, that is, the inability to establish regional institutions that create and implement common rules, as well as to deal with regional asymmetries of size and stages of development. Furthermore, the principles of territorial integrity and non-interferences are conveniently invoked by states to protect their nation’s interests. Hence, as Bouzas et al. (2002, p.147) points out, ”the intensive use of diplomatic resources to move regional integration forward was accompanied by poor implementation mechanisms. Consequently, even in those areas with agreed regional rules, implementation weaknesses proved functional to the subsistence of national discretion.”

In general Mercosur is regarded as “a highly asymmetrical grouping, with one country (Brazil) accounting for three quarters of the production of the region” (Korinek & Melatos: 2009, p.14). The two main trading partners within the group are Brazil and Argentina commandeering 90 percent of trade between the two countries (Korinek & Melatos: 2009, p.14). Even though Mercosur registered increased intragroup import patterns, these play a smaller role for Argentina and Brazil, than for Uruguay and Paraguay (Moncarz & Vaillant, 2010, p.330). The seriousness of Mercosur’s shortcomings on trade and infrastructure was also highlighted by the Uruguayan Vice President, Danilo Astori, who argued that “we must admit that bringing natural gas to Uruguay faces growing obstacles and increasing delays at regional level are notorious”. He further stated that “Latin American integration is seriously hurt and much more than in the past. We have less attitude and less mechanisms for internal cooperation. We need a lot of patience and work to recover it and make it solid” (South Atlantic News Agency, accessed at: http://en.mercopress.com/2011/12/23/uruguay-criticizes-mercosur).

Mercosur challenges were compounded in January 1999 by the economic instability in Brazil and its government’s decision to effectively devalue the national currency,
the Real. Consequently, Brazil’s significant automobile industry became increasingly competitive, to the detriment of Argentina’s. In response, Argentina imposed import tariffs on Brazilian steel Gordon (2001, p. 98). In July 1999, the Argentinean authorities endorsed a decree permitting restrictions on all imports from neighbouring countries, in order to protect local industries, prompting Brazil to suspend negotiations to resolve the trading differences between the two countries. Gordon (2001, p.98) states that “Brazil’s commitment to Mercosur is strongly tied to its political and economic image, and has been tested repeatedly by recurring economic tensions and similar problems are predictable in the future.”

The sustainability and effectiveness of Mercosur had also been called into question. Richards (1997), argues that Mercosur did not create conditions for balanced and equitable development but simply reinforced the subordinate status of its members in the world capitalist system, reinforcing US’ hegemony in the region. The same argument applies to SACU which has configured its union arrangements in line with the global capitalist practices of privatisation and down-sizing. The Economist Intelligence Unit (2008) has characterised Mercosur as a “weak and confusing union”. Therefore, international institutions, such as Mercosur at the regional level, do not work in the interests of poor countries (Bayliss et al. 2011, p. 259).

Security matters are part of the intrinsic challenges of Mercosur. Schiff and Winters (2003, p.193), argue that “the Argentine and Brazilian militaries long justified their claims to resources for defense, partly on the potential threats from each other. In the mid-1980s the two countries signed nuclear cooperation agreements and economic agreements covering steel and automobiles in the expectation that this would help reduce tensions between them by curtailing the power of the military and strengthening their fragile democracies. The creation of Mercosur in 1991 reinforced this process and bound smaller neighbors into it”. Therefore, the two smaller members, driven by their pressing domestic economic demands, are perhaps members of a bloc established under the pretext of economic cooperation, but its fundamental aim is to manage political tensions between Argentina and Brazil.
The importance of the security relations within Mercosur is reflected in the United Nations Conference on Trade and Development (UNCTAD). UNCTAD stated that both Argentina and Brazil were, in the 1990s emerging from a period of military governments during which considerable tension had characterized the bilateral relationship, centered on a long-standing controversy about competing hydroelectric projects in international rivers of the Plata Basin. Both militaries had also continued to pursue their secret nuclear programs. It was essential to start with agreements in the economic area in order to create a more positive external environment that rendered it possible to contain the military nuclear programs and to replace rivalry by integration. This effort was developed along successive stages and eventually led to signature by the two governments of Brazil and Argentina” (Schiff and Winters, 2003, p.193).

It can therefore, be concluded from the above that, Brazil and Argentina proved that regional economic institutions, do not only aim to improve economic conditions and broaden economic development, but could also be used to achieve political objectives, such as promoting peace and stability through increased cooperation on shared economic interests like trade in goods and services

3.9 Conclusion

The relationship between Brazil and Argentina is characterised by inter-state competition through which states seek to maximise their wealth and independence. In maximising their wealth, states protect the existing wealth within its borders whilst pursuing national interest through international forums, such as regional organisations.

The need to elevate the status of Mercosur structures and decision-making powers to a supranational body, in order to improve its efficiency and effectiveness cannot be overemphasised. The advantages of such a body would be to assume enforcement powers necessary to create and implement common regional policies. It is difficult to expect that states through political will, abide by the decisions and rules based on a non-binding agreement. The main challenges for effective, real and meaningful integration have been born by insistence by some countries to retain their sovereignty and territorial integrity at the expense of the quest for a more common regional agenda.
Both in the context of SACU and Mercosur, even though there are clearly powerful countries, such as South Africa and Brazil; their willingness to cooperate with other small countries, albeit on the issues that are uppermost in the national agendas, is evidence that this cooperation can produce positive results. Institutional cooperation through the negotiations of common trade policies, collective security arrangements, creates an atmosphere conducive to enhancing inter-state interactions.
CHAPTER FOUR: Mercosur-SACU: cooperation in constrained environments

4.1 Introduction

Cooperation between Mercosur and SACU is within a context of global interdependence. The terms regional integration and regionalism are used to describe not only economic interdependence, but also inter-regional connections on issues traditionally considered to be within the control of states. Such issues include, but are not limited to: identity, citizenship, governance, and security. Despite developmental challenges, such as poverty, inequality, high unemployment rates, and debilitated infrastructure, Mercosur and SACU show willingness to cooperate with each other.

Mercosur and SACU are engaged in inter-regional cooperation and integration efforts, to promote economic development of their member states, thereby improving living conditions of their citizens. Despite their willingness to work together to deal with the abovementioned challenges, cooperation between the two blocs is severely constrained. The constraints are both internal within member states and regional between the member states and include democratic deficit of Mercosur and SACU, South-South relations, governance and regional integration and trade and security.

For effective regional integration and cooperation to take root, the two blocs have to make decisions and compromises that are relevant to sensitive issues such as, the creation of regional identity; the form and type of governance structures; the balancing of trade requirements with domestic priorities both in political and economic terms. Ultimately, the member countries have to work together to craft common policies and programmes and to move away from the dependence on the powerful member syndrome. Powerful members have a superior responsibility to balance their national interests with the integration agenda for regional growth. For this to happen the basic requirement is that all member states should agree on appropriate regional structural configurations that would be capable of implementing agreed regional policies and programmes.
4.2 The deficit of democracy in SACU and Mercosur regionalism

The 2002 SACU Agreement was hailed as having changed the predominance of one powerful member over others, and ushered in new decision-making procedures of the union. Article 2 of the Agreement outlines eight objectives for SACU, including the undertaking to “create effective, transparent and democratic institutions that will ensure equitable trade benefits to Member States” (SACU Agreement, 2002). Articles 7 to 17 provide for the creation of six new institutions, namely the Council of Ministers, Customs Union Commission, Secretariat, Tariff Board, Technical Liaison Committees and a Tribunal. Article 14 further permits member states to establish National Bodies to deal with tariff classifications and trade remedies (SACU Agreement, 2002). In the agreement, for the first time SACU provides for the establishment of permanent institutions that are intergovernmental in nature and ‘independent’ of South African national ministries (Gibb 2006, p. 596).

SACU’s centenary celebrations and its assessment of the first hundred years in existence revealed that, of the eight institutions mentioned above and provided for in its 2002 Agreement, only the Council of Ministers, SACU Commission, Technical Liaison Committees and the Secretariat had been established. That being said, the other institutions (excepting the Council of Ministers), are primarily concerned with operational issues and not policy formulation, the latter being the main reason for the renegotiation of the 1969 SACU Agreement (Gibb & Treasure, 2011, p.4).

SACU’s lack of effective regional institutions has led to criticisms of democratic deficits in that it lacks active participation and involvement of all stakeholders and therefore lacks credibility, which is further compounded by the extreme and unequal power relations. SACU is criticised of an inability to protect regional perspective, for the interests of smaller members. However, there is no universally accepted measure of what constitutes democracy in an inter-governmental institution such as SACU. In spite of the 2002 Agreement making provision for consensus decision-making procedure, for South Africa the issue of inequality in the size and levels of development among member states raises critical questions about the meaning of democracy in a regional organisation characterised by one dominant member (Gibb & Treasure, 2011, p.9). The South African concerns are best captured by Johnson (2001,
who argues that “democratisation is a dynamic and uneven process that creates uncertainty among political actors and instability across borders”.

The strengthening of Mercosur’s architecture in 1994 through the Ouro Preto Protocol, did not silence arguments on the bloc’s democratic deficit (Dabeñe 2009, p.153). During its transition phase (March 1991 to 31 December 1994), Mercosur member states established intergovernmental organs, which made decisions by consensus. The organisational structure in the transition period comprised of the Common Market Council and the Common Market Group. The Ouro Preto Protocol created additional structures such as the Joint Parliamentary Commission, the Advisory Forum on Economic and Social Matters, as well as the Trade Commission (Pereira, 1999, p.10-11).

The reluctance of the Mercosur elites (political and business) to capture and create space for social movements and labour unions has fuelled criticisms on the bloc’s democratic deficit. The Coordination of Trade Unions from the Southern Cone (CCSCS) was established as early as 1986 to foster regional democratisation projects and to deal with the international debt crisis that negatively affected the conditions of employment. The CCSCS was successful in its lobbying because, Mercosur eventually created a working group on labour issues. This initial step was however, undermined by Mercosur’s disregard for social consequences of free trade (Dabeñe 2009, p.168-9). The CCSCS devised a strategy for Mercosur to adopt a social charter along the lines of the European Union social charter adopted in 1961 and revised in 1996. This proposal, as well as the idea of a civil society forum, was rejected in 1994. Mercosur corresponds with civil society through the Economic and Social Consultative Forum (FCES) created by the Ouro Preto Protocol in 1994. Some discussions of the forum never got to the core issues of regional integration. The rejected labour participation proposals which included issues such as labour cost, formal and informal labour market, migration and social policy, indicated a lack of interest in deepening integration from the political to the social sphere of life (Dabeñe, 2009, p.168-9).

The private sector, with appreciation of their organisational weaknesses at the regional level outside Mercosur (similar to CCSCS), was similarly accommodated to
participate in the structures of Mercosur through the working group on industrial and technological policy (Dabeñe 2009:169). Its participation, without resistance to accessing negotiations (due to intergovernmental nature of Mercosur), did not yield much success. Some organisations such as the Federation of industries from the State of Sao Paulo (FIESP) soon realised that they would be better off employing the traditional lobbying methods through national institutions in their respective countries. Admittedly, part of the blame could also be apportioned to the negotiators who failed to articulate consistent proposals (Dabeñe, 2009, p.169). As an institution, Mercosur authorities also could not display evidenced interest or commitment to the discussions as noted in the lack of financial resources for working groups. Working groups access funding through the European Union and the Inter-American development Bank (IDB) and when these funds were interrupted, the working groups would suspend their meetings (Dabeñe, 2009, p.169).

The FCES (Foro Consultivo Económico-Social) was established as a “body for representing the economic and social sectors” (Dabeñe, 2009, p.169). It was given a mandate to adopt its own rules of procedure. The outcome of the FCES discussions was that, it produced its recommendations following an intergovernmental path (Dabeñe, 2009, p.169). This created tensions between the strengthening of intergovernmental relations and the socialisation of the democratic processes of Mercosur.

The issue of democratic deficit is also discussed within the context of citizenship and regionalism. Grugel (2005, p.1062) argues that democratisation requires not only the institutional change but, more fundamentally, the construction and practice of social citizenship. Citizenship is described as a set of interlinked political, social, cultural and economic rights and obligations. These comprise the liberal freedoms of association, information, expression and also encompass one’s rights to identity, dignity, welfare and security (Grugel, 2005, p.1062; Grabendorff, 1999, p.97). The European model is an inspiration for many civil society activists within Mercosur due to its diffused regional model of state-bound rights, common patterns of development and notions of welfare (Grugel, 2005, p.1062; Grabendorff, 1999, p. 97). Citizenship can no longer be exclusively attributed to nation-states. Other actors, such as sub-national entities or supranational regimes also deliver different kinds of rights and
duties to people, such as humanitarian assistance relief officials (Gift of the Givers, Doctors Without Borders,). As a result, the state’s monopoly on people’s citizenship (and identification) is beginning to be eroded and this opens avenues for region-builders (Van Langenhove, 2011, p.74). In this regard, examples such as trade in services, especially in sport and technical skills, provide people with opportunities to acquire multiple citizenships and identification through social relations, such as marriages and affiliation to civil organisations.

The rule of law makes possible civil interaction an asset in building human interaction and regional identity among different nationalities Nyirabu (2004, p.26). Regional identity is not something people possess, but rather a conceptual tool used in certain discourses (Van Langenhove, 2011:73). Risse (2000) introduced three distinct models of regional identity. The first is the zero sum model where identification with one region comes at the expense of identification with other regions. This model is linked to the nationalist discourse. The second is the layer cake model where people hold multiple identities and it depends on the social context of interaction which of these multiple identities is invoked and which become silent. The last one is marble cake model where identities are context-dependent where it is difficult to separate for instance one’s nationality from the regional practices.

Broadening the norms of regional integration to incorporate social citizenship could provide Mercosur, as well as SACU, with widespread social acceptance that is currently lacking. The creation of the Instituto Social Mercosur (IMS), a think-tank to investigate social policy in Mercosur was a plausible initiative and it has contributed to the efforts to put social citizenship issues on the agenda of region-building and to challenge the established norms to infuse regional integration with new norms of citizenship. The IMS explained that the new citizenship entailed a ‘social agenda’; that is, the reworking of the corporatist bargain, alongside a targeted approach to “welfare based in part on new identity-based rights” (Grugel, 2005, p. 1064-5). The new citizenship would focus on policies that deal with “negative social effects of integration” (Grugel, 2005, p. 1064-5). Such policies would include the adoption of anti-poverty strategies and elimination of social exclusion. The IMS has with relative success managed to ‘domesticate’ some of its policy recommendations to be in the
agenda of Mercosur and to counter its trade-centred approach to regionalism to also focus on social issues traditionally considered peripheral (Grugel, 2005, p.1064-5).

Expanding on the subject of citizenship in an interdependent, regionalising and globalising world Eichenberger and Frey (2010, p.343), propose that states ought to implement a flexible citizenship characterised by temporary, multiple and partial types. Temporary citizenship should enable an individual to choose for a predetermined period of time to become a citizen of a particular political unit, for example, because he or she is working and living in a country for a specific period of time. Multiple citizenship should be given to people working and living simultaneously in various countries. The rights related to this type of citizenship should be adjusted accordingly, particularly the voting rights. The last type is partial citizenship which should permit an individual to be defined as part of a political unit with respect to one particular function, while being a citizen of another country with respect to other functions.

These proposals above are based on the recognition of the reality that the process of globalisation, through which regionalism is promoted, dramatically reduces the costs of communication and transport. Therefore, with increased mobility, individuals live and work in countries in which they are not citizens, especially in neighbouring countries considered better-off than one’s countries of origin. Often these people enjoy rights that are not accompanied by obligations such as paying taxes for public services. The provision of public services is a core of any government’s social development programme and is discussed below.

The process of regional integration should include social development as its objective, given that social problems transcend national borders. Political and social demands are shared at regional levels. Governments should think about social policy regionally, for the purposes of creating conditions conducive to the resolution of shared political and social demands, such as peace, stability, security, and employment creation. Social integration in Mercosur does not respect geography. Furthermore, the IMS argues that social reform is imperative because the pace of economic integration, especially in border regions, makes coordinated social
regulation inevitable if states are to remain legitimate and to lay claims to sovereign control over territory (Grugel, 2005, p.1067).

Mercosur is to a certain extent credited for acknowledging that regionalism should pay attention to issues related to welfare, citizenship and social development. Presidents Luiz Inácio Lula da Silva and Néstor Carlos Kirchner Ostoic, of Brazil and Argentina respectively, are credited with pursuing a regional agenda framed through the articulation of development projects that combine export growth and international trade alongside social reform and a commitment to greater equality (Grugel, 2005, p.1069). In March 2004, at the Summit of Copacabana, the two Presidents entered into what was dubbed an ‘historic agreement’ to move towards a new regional model of social democratic development. However, this formed part of the classic integration rhetoric that did not translate into firm regional social development policies, but mimicked “rhetorical compliance with what were seen as new international norms” (Grugel, 2005, p.1069). At the time both leaders sought international support and positioned themselves as such (Grugel, 2005, p.1069). In relation to the role of social activists in regional integration, politicians are sometimes more concerned with short-termism, public image, power, political clientelism and even wealth accumulation (Nyirabu, 2004, p. 26). Therefore they should not be the driving force in regional integration.

There are many challenges associated with democratisation within and between states. These include poverty eradication, equity and social rights and service delivery. Regionalism is overwhelmingly dominated by technocrats and is largely viewed within the prism of trade and economic policy, thereby restricting the broader participation of social activists (Grugel, 2005, p.1071-2). Society-based actors do not participate in the ‘right’ institutions negotiating region-building strategies (Grugel 2005, p. 1071-2). The absence of supranational instruments in the regional institutions renders these weak and somewhat ineffective. The protection of the sovereignty of member states exacerbates this challenge. Intergovernmentalism favours the larger and more powerful member states. Supranationality is yet to take root in Africa (SACU included) and could be added in Mercosur as well (Nyirabu, 2004, p. 26).

4.3 South-South relations
Regional integration in Mercosur and SACU is characterised by acute imbalances and inequities. SACU is characterised by different sizes and levels of development of its member countries, and varied historical patterns of interaction in the regional economy. The productive centre in SACU has long been located in South Africa, while the other countries in the region were integrated as providers of migrant labour, services and as ‘captive markets’ for South African exports. During the apartheid era, South Africa initiated various trade arrangements with neighbouring countries to consolidate its dominant economic position in the region (Nyirabu, 2004, p. 23).

South-South cooperation within SACU and the entire southern African region, as well as the African continent by extension, faces obstacles similar to Mercosur. These include, as outlined by Nyirabu (2004, p.23), lack of grassroots support; excessive external dependence; institutional weaknesses (applicable to both Mercosur and SACU); underdeveloped economies, such as Lesotho and Swaziland in the context of SACU, Uruguay and Paraguay in relation to Mercosur; multiplicity of organisations, Mercosur’s rival in Latin America - the Free Trade Area of the Americas and the overlapping membership of SACU members with the Southern African Development Community Free Trade Area launched in 2008; the international economic structure and the distribution of the benefits of integration. These challenges have a direct impact on the efficacy of regional integration and cooperation efforts.

Effective cooperation requires peace and stability for a considerable period of time. SACU has experienced instability during the late nineties and the beginning of the 21st century due to political conflicts in Lesotho, and the union continues to survive turbulences in Swaziland, the only remaining effective monarchy in the region. The region has experienced peaceful transfers of political power at least in the last two decades, as exemplified by recent elections in Botswana, Namibia, South Africa and Lesotho. Political instability causes ‘enduring economic decline and general maldevelopment [sic]’ (Nyirabu 2004, p.25). Political instability is not the only factor that derails economic cooperation and regional integration. Other factors such as the slow pace of progress in implementing the agreements, policies and principles also play a role in hindering meaningful and expedient regional integration and South-South cooperation. In Mercosur there is relative peace and stability.
Mercosur-SACU cooperation is mainly focused on economic cooperation. The Preferential Trade Agreement originally signed by SACU and Mercosur in 2004 and revised in 2008, has been ratified only by Botswana and South Africa in SACU and only Brazil as part of Mercosur. According to SACU ‘it is expected that the other countries will finalize this process during the coming year (2012), thereafter the Agreement can be implemented’ (SACU, 2011, p. 20).

SACU members are in agreement that the PTA, once implemented fully, will provide the union with the basis for further integration and cooperation including through possible further exchanges of tariff preferences and cooperation on other areas. SACU argues that the PTA establishes a legal framework to govern SACU and MERCOSUR trade relations and it effectively gives meaning to the objectives of South-South cooperation and integration. The envisioned cooperation will be implemented through increased trade by mutual tariff preferences; establishing fixed preference margins as a first step towards the creation of a free trade area between the two regions and to establish trade disciplines between parties (SACU, 2008). Furthermore, the PTA is to raise trade volumes in the context of South-South trade compatible with multilateral trading systems and also fostering regional integration. The PTA covers trade in industrial and agricultural products based on agreed tariff preferences and other conditions such as the rules of origin agreed by both parties for the importation of negotiated products (SACU, 2008).

In a media statement released by the Department of International Relations and Cooperation on 1 November 2011, the Ministers of Foreign Relations, Hector Timmerman and his South African counterpart, Rob Davies, concurred that there was an urgent need to fully ratify the PTA especially since the global economy has been showing important signs of shifting global trade trends to the South (Department of Foreign Affairs, 2011). According to the Ministers the PTA will undoubtedly provide the two regions with impetus to the trade and investment opportunities that exist between the two countries and their regions (Department of Foreign Affairs, 2011). However, the slow ratification process of the PTA exposes the general weaknesses and limitations of regional cooperation structural mechanisms.
Decisions in both SACU and Mercosur are made by consensus and the PTA can only take effect once it is ratified by all parties. The consensus decision-making methods are hindered by a fact that the slowest movers in the process determine the pace of economic cooperation. The countries that have protracted national procedures in ratifying international decisions and agreements, effectively delay the implementation, thus, holding back the process and progress. This also demonstrates the lack of centrally coordinated institutional arrangements to enforce mutually agreed policies and principles (Nyirabu, 2004, p. 26). The slow progress in the ratification of the PTA is a case in point. Member countries of both SACU and Mercosur are not under pressure to fast-track the ratification, mindful of the fact that it can only enter into force once all members have ratified it. However, attention is limited to the application of supranationality to SACU and Mercosur institutions.

4.4 Governance and regional integration

Governance is understood as the establishment and operation of a set of rules of conduct that define practices, assign roles and guide interaction when grappling with collective problems (Young, 1994, p.3, 15). Therefore, collective governance suggests sharing responsibility both for making and implementing decisions. This applies even if the two functions, that is, making and implementing decisions, are separated in practice and some responsibility is delegated from one level of collective action to another. A related implication is that a minimum of coordinated behaviour is observed by all participants (Hveem, 2000, p.133). Effective regional integration could only be achieved through regional governance institutions set up to implement agreed-upon rules and decisions. Regional institutions form part of an international governance system which makes and implements rules and decisions through supranational and intergovernmental structures.

Intergovernmental structures are created by national executives of the member states of an international organisation and such states are primary policy makers (Hancock, 2009). States negotiate with each other to produce a common policy. The barraging process between and among states is shaped by power relations between them, as well as by the influence of national interest groups. Member states retain a veto power which is the power to decide which policy or position to support or accept as a cause
of action. The intergovernmental agreements also weigh the voting rules according to the economic power of each member state. Power is calculated on the basis of population and wealth. For example, the International Monetary Fund and the World Bank use a weighted voting system to allocating voting rights to their members (Rourke, 2008, p. 208). However, the people in intergovernmental structures represent their government not the organisation itself (Hancock, 2009, p.37). The Mercosur Council and the SACU Ministerial Council are examples of a structure in which agreements to be passed rely almost exclusively on intergovernmental bargaining.

Supranational structures in contrast to the intergovernmental setup require member states of an international organisation to delegate policy-making authority to a joint structure (Hancock, 2009, p.39-40). The primary actors in a supranational arrangement account to the organisation rather than to member states as is the case in intergovernmental forums. Supranational structures have defined jurisdiction over specific policy areas affecting member states. In supranational arrangements, leaders openly delegate policy-making powers to the structure rather than to bargain amongst themselves. Most importantly, member states agree in advance to abide by decisions reached through processes of the structures they established. To be classified as supranational, institutions must have legislative and/or binding adjudicative authority. The authority should include the right to create or amend agreements or issue-binding directives. Examples of supranational structures are the European Parliament, European Central Bank, and the European Court of Justice. Supranational structures oblige states to accept political positions they would otherwise oppose or avoid. The foregoing is the main reason why states are cautious in entering supranational arrangements except in dispute settlement mechanisms (Hancock, 2009, p.39-40).

The challenges of Mercosur and SACU make it necessary to highlight the importance of supranational institutions as exemplified by organs of the European Union. Delegating certain state competencies to a supranational structure could be effective in providing information and other resources to meet the costs of formulating, negotiating and implementing collective decisions. States could incur costs which may be (a) less politically salient than benefits of more efficient delivery of collective policies, for example, common external tariffs and harmonised trade policy; and (b) the costs may be lagged with respect to the benefits, therefore of less weight for
political leaders. These conditions depend on the gains to be realised by delegating a particular policy area to a supranational institution, the national electoral and political party context facing government leaders and their substantive policy goals (Marks, Hooghe and Blank, 1996, p. 207).

Ray (1992, p. 414) states that “in theory, the argument for economic integration sounds convincing. In practice, the results of integration efforts in developing countries have been mixed at best, with no organisation even approaching the level of institutional development of the European Community (now the European Union)”. Ray (1992, p.414) further advances an argument that there are reasons attributable to the lack of institutional development in developing countries, such as the economies of these countries being less complex or industrialised, and this causes the movement from one technical economic task to another less likely to occur. Even when spill-over does occur, the typical integrating organisation lacks the necessary administrative and bureaucratic talent to take advantage of the situation (Ray, 1992, p.415). The foregoing, argues Ray (1992, p.415) are important impediments to integration in developing countries.

The lack of technical skills-set to establish national bodies to implement regional policies and programmes is central to SACU with regards to the national tariffs boards. In the context of Mercosur, the use of diplomatic channels to implement the regionally agreed programmes has leads to poor or immeasurable results. However, the most serious obstacles to effective regional integration originate from poor governance structures. In this regard Montecinos (1996, p.111) argues that “integration is unlikely to advance very far without appropriate mechanisms of governance”. The advocates of the integrationist theory assume that “integration depends on the avoidance of supranational bureaucracies and that flexible arrangements, such as ad hoc secretariats, direct diplomacy, presidential summits work better than formal structures” (Montecinos, 1996, p. 111). The example of the European Union, demonstrates a combination of flexible, but strong, regional institutions, capable of responding to frequent economic and legitimation crises in fast-changing environments are actually desirable and ideal (Montecinos, 1996, p. 111).
Institutional structures and procedures shape integration. In the context of SACU and Mercosur, these are lacking as integration policies and programmes are mainly negotiated and agreed by technocrats lacking political authority to implement the agreements at national level. The technocratic vision of integration therefore weakens the ability of states as represented by their governments, to moderate the resistance of interest groups who feel threatened by the replacement of national protectionism with an uncertain regional protectionism. Montecinos (1996, p.116) explains this point further, that “technocrats recognise the importance of having politicians to create a favourable climate for negotiations, but they also worry that politicians may let their integrationist rhetoric run ahead of economic reality”. By so doing the technocrats are also converting themselves to politicians perhaps unwittingly. However, the avoidance of national political controversies is not inimical to the advancement of the integration process provided the institutional framework allows for effective and strong regional policy negotiation, coordination and implementation.

In the absence of a supranational structure with clearly defined powers and the capability of coordinating and harmonising economic policies, given the disparities of logical size and economic power of Mercosur and SACU member countries, there is a need for compensation mechanisms. The design of Mercosur in particular reflects an ingrained Brazilian reticence on the institutionalisation of the bloc, which was caused by Argentina’s faithful pursuit of neoliberalism in the 1990s that lead to the financial crisis in that country. Mercosur lacks robust institutionalisation to facilitate a more rules-based regional governance structure (Phillips, 2003, p. 220). With the exception of the Secretariat, Council of Ministers and the Summit of the Heads of State (all being relatively new structures), SACU is no better. As previously stated, South Africa administers all organisational issues.

Integration should be responsive to the needs of groups, sectors and regions that are likely to be harmed by integration measures such as tariff reductions (Montecinos, 1996, p. 121). Therefore, national political controversies related to supranationality of regional arrangements ought to be addressed for effective regional integration. The nationalistic concerns of protecting vulnerable and infant industries against absorption or being wiped out of the market should not be employed as defences against broader regional common interests. Mercosur still experiences nationalistic tendencies mainly
linked to economic interests, such as oil companies as recently witnessed in Argentina. Brazil and Argentina in particular, consider their internal markets as being more important than the external sector’s (Phillips, 2003, p. 219).

Supranationality of regional organisations is further challenged by member countries that do not participate in common vision objectives. In SACU South Africa created the union to consolidate its political and economic dominance of the region, to expand its sphere of influence. Other SACU members participate in the union for narrow economic gains accumulated from the shared revenue mechanism and to expand market access both as consumers and traders. In Mercosur Brazilian engagement with regional integration, is motivated by strategic and political goals, related to the construction of regional leadership as a protective shield against external domination of South America by the United States (Phillips, 2003, p. 221). With a diversified foreign trade portfolio compared to its neighbours, Brazil’s commercial interests are linked to other countries in the global multilateral system more so than with her neighbours. Argentina, Paraguay and Uruguay show greater reliance on Mercosur as the regional marketplace than Brazil (Phillips, 2003, p. 221).

Under the 2002 Agreement SACU established a supranational body which is the ad hoc Tribunal to deal with trade disputes. The Tribunal is mandated to make its decisions using majority opinion rules and should consist of three members approved by the Council of Ministers. However, the rules governing the workings of the Tribunal are inadequately specified and therefore weak (Hancock, 2009, p.103). Yet the Tribunal could prove a valuable tool in fostering regional integration if given the necessary resources, such as the powers to investigate, prosecute and impose legally binding and respectable sanctions. In refining the purpose of the Tribunal it can be effective in trade disputes and possess the authority to enforce harmonisation of trade policies.

Mercosur opted to remain an intergovernmental rather than a supranational structure. This has both advantages and disadvantages. The organisation enjoys relative flexibility in negotiating processes but the slow implementation of the common rules is thwarted by a lack of commitment (Baumann, 2011, p. 76). Strong supranational
institutions are often incorrectly seen as the antithesis of intergovernmentalism, but they are at the service of member states and therefore not independent structures.

### 4.5 Trade and security

At a bilateral level, the high levels of trade and investment between neighbours can be tense. Political and security tensions ought to be managed and avoided at the regional level through a number of mechanisms increased trade and commercial relations between neighbouring countries (Khan, 2009, p. xiii).

As previously indicated there is no single motivation for formal cooperation between SACU and Mercosur. Trade expansion, as a response to domestic economic pressures, as well as the growing interdependence between states, provides just one view. Regional integration initiatives are also motivated by political objectives, such peace, democracy and security. Economic and trade initiatives are strongly intertwined with political motivations. Ensuring political stability and security is a major objective of regional integration (OECD, 1995, p.32, 35). The United Nations Conference on Trade and Development (UNCTAD) has observed that low-income countries such as Lesotho (see Table 4), are particularly prone to internal conflict due to poverty which undermines human security and threatens neighbouring states (Curtis, 2007, p. 19).

Political benefits for integration include economic integration that politically stabilise states, and which reduces the security risk to other states (Hancock, 2009, p.29). States may choose to economically integrate with certain states in order to surround themselves in a broader political and security network. The importance and value of trade is almost universally recognised, but certain interest groups and sectors do face losses. These groups and sectors sometimes drive political and social sensitivities beyond the national borders. Examples are environment protection groups, human rights advocacy groups, to mention just the two. Differences on trade issues arise at different levels and scales and can lead to wider political differences and tensions between states. The WTO has developed and increasingly strengthens the resolution mechanisms of such differences. Efforts should be made to promote trade as a means to avoid increasing tension and possible conflict between states (Khan, 2009, p. xiii).
Mercosur has evolved from a predominantly commercial initiative based on the implementation of a trade liberalisation programme to an all-inclusive regional organisation dealing with, amongst other things, economic growth and development, social development, peace and security. The organisation has incorporated a variety of non-trade issues in its agenda in order to develop a trade and cooperation linkage. These include education, justice, environment, energy, technology, health and foreign policy (Blanco, Claro, Goldschagg and Ruiz-Dana, 2009, p.28). These issues will minimise tension and conflict between the member states and broaden participation. It is considered vital for the establishment of a ‘community sense’ and regional identity based on shared values and principles (Blanco et al. 2009, p. 28).

The absence of effective mechanisms to deal with trade imbalances unilateral moves, such as Brazil’s uncoordinated currency devaluation in 1999 and the renationalisation of Argentine oil company Yacimientos Petrolíferos Fiscales (YPF) or in English, Treasury Petroleum Fields in 2012, created tensions among the regional trading partners (Paiva & Gazel, 2003, p.119). As a consequence of the 1999 Brazilian currency devaluation, intra-Mercosur trade plummeted to 12.9 percent of the regions global exports in 2004, in contrast to the 25.3 per cent registered in 1998 (CEPAL, 2005, p.119). Institutional factors are not the only source of tension in Mercosur. Vaillant (2005, p.60) suggests that unequal distribution of trade benefits is an obstacle to trade growth and full economic integration. The tensions and inequities between and within Mercosur make the integration efforts counterproductive. The constant disputes between Brazil and Argentina on the issue of asymmetries and inequalities are revealed through the application of non-tariff barriers, such as rules of origin procedures which act as an incentive to locate investment and production in the dominant Brazilian market while other Mercosur members de-industrialise in the process (Blanco et al. 2009, p. 26).

Despite the challenges Mercosur has made important interventions to reduce conflict and tensions within its members. The creation of a post-decision control mechanism and the establishment of a Permanent Review Court are noteworthy. The Permanent Review Court has a two-fold mandate, which is (i) to review the decisions of the Mercosur Tribunal’s decisions and (ii) to provide an alternative to ad hoc arbitration where parties may submit their disputes directly to the court saving time by not
having to go through the arbitration process (Peña & Rozenberg, 2005, p. 9). The post-ruling control mechanism strengthens the obligatory nature of of the arbitration decisions by invoking possible compensation in case of a member state’s non-compliance. These two structures were created by the Protocol of Olivos signed in 2002. The protocol was aimed at reducing trade disruptions and its political ramifications (Peña & Rozenberg, 2005, p. 9). It must be added that these two also have serious implications to regional security such as breakdown in relations and negative economic outcomes.

The restoration of the rule of law and democracy after an unsuccessful coup d’etat in Paraguay in 1996 earned Mercosur international recognition as a stable region. The organisation overcame persistent threats of military coups in the region (Strümberg, 1998; Vasconcelos, 2001, p. 136). However, the 1996 success is challenged by other sources of insecurity in the region; the social and political conflicts induced by the trade in narcotics and international terrorism are prevalent. Therefore, there is a need for a concerted regional response to these challenges. A major hindrance to finding a solution to the above and other challenges, is the combination of interdependency and inequality within the region (Bodemer, 2002, p. 415).

The asymmetries within Mercosur are further compounded by divergent foreign policy objectives expressed by Argentina’s efforts to counter Brazil’s lobbying for a seat in the United Nations Security Council (Brown et al. 2005, p.20). Following Paraguay’s 1996 constitution crisis, Mercosur presidents issued a Declaration on Democratic Commitment and subsequently signed a Ushuaia Protocol on Democratic Commitment on 24 July 1998 (Dabeñe, 2009, p.77-8). The move helped to alleviate frequent military and security threats to the integration project. Since then the group has witnessed peaceful transfer of political power and alternation of political leaders. Mercosur and Southern Africa (as a bigger sub-region consisting of more than ten countries in the form of the Southern African Development Community SADC, of which all SACU countries are also full members) exemplify a clear connection of the complex dynamics between regional economic integration (through trade) and security. By strengthening its conflict-resolution mechanisms and instituting a fair and equitable distribution of benefits Mercosur members should be able to secure peace in the long-term future (Blanco et al. 2009, p. 31).
The history of Southern Africa is characterised by political tensions (Qobo, 2009, p. 60-1). The apartheid politics in South Africa in their destabilisation effect (destruction of infrastructure such as roads, railways lines, bridges, electricity grids, etc), fuelled hostilities throughout the region evident in the intrastate conflicts in Angola and Mozambique in the 1970s (Qobo, 2009, p. 60-1). Approaches between Mercosur and SACU differ in that the former treats any unconstitutional or undemocratic political process as threats to the consolidation of regional integration. The latter applies the traditional realist approach that regards state survival as supreme and such an approach invalidates the place of individuals or non-state actors on security matters. Therefore, in Southern Africa it is conflicts between states that attracts attention and action, and this is a prevailing mindset. In actual fact state actors spend more time on security cooperation rather than on economic integration. In reality this means that the important interlinked facets of economic integration and security are kept apart both conceptually and institutionally (Qobo, 2009, p. 60-1).

The economic development of states in both South America and Southern Africa is a necessary condition for equitable development of the regions but is not sufficient. Further steps toward integration should be taken in consolidating trade relations. Both regions can bolster their negotiating capacities globally, in economic terms and regional security. The inability of SACU countries to overcome the crises of production and manufacturing capacity to match their South African counterparts will reinforce the violence-proneness of the region’s security complex. Put differently, integration should not just be about economics, but also regional security as the stability of any region depends on regional economic developments (Ohlson & Stedman, 1993, p. 102). Both SACU and Mercosur have to make a concerted efforts to dismantle basic structural inequalities. Therefore, the development of “trade policies that do not increase the likelihood or longevity of conflict is a critical task” (Curtis, 2007, p. 18).

The asymmetries within SACU, as in Mercosur, continue to exacerbate inequalities in the regions. According to Ohlson and Stedman (1993, p. 102) ”Regional integration should be a product of more equitable development, with every member state enjoying the gains from trade and other forms of economic interaction in the region”.

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Regionalism on issues related to trade and security cannot be understood in isolation from domestic factors, including the nature of institutions, the political culture and the character of relationships between various societal actors (Brown, Ruiz-Dana and Qobo, 2009, p.241). The willingness of neighbouring states to cooperate both at political and economic level is important in pushing regional integration forward. The challenges to regional stability stem from the ‘democratisation’ of SACU by the 2002 Agreement.

The 2002 SACU Agreement is a significant step taken by its members to improve its democratic deficit. However, important questions have arisen as to whether it is fair or ‘democratic’ for South Africa, with approximately 90 percent of SACU’s population and gross domestic product, to share power with Swaziland, with just 2 percent of SACU’s population or Lesotho, with 0.6 percent of SACU’s gross domestic product (Gibb & Treasure, 2011, p.14, 16). If democratic credibility of institutions increases stability and fairness it is challenged by development in SACU, where the increase in democratic values has undermined stability of both the institution and the regional relations facilitated through the union (Gibb & Treasure, 2011, p. 14, 16). This actually poses a challenge to the pursuit of democratic values where there is vastly unequal distribution of power within a regional institution. SACU states hold contested notions of democracy and sovereignty due to history and geographically landlocked countries, such as Lesotho and Swaziland (Gibb & Treasure, 2011, p. 14, 16).

SACU was instrumental in creating stability for South Africa during colonial and apartheid periods, but the divergence of interests between its members, especially in relation to the economic partnership agreements with the European Union, has undermined the stability of the bloc (Gibb & Treasure, 2011, p. 17). Given the benefits the small members derive from SACU, the stability of the union overrides the participatory democratic decision-making mechanism (Gibb & Treasure, 2011, p. 17). Even though these smaller SACU countries wield influence when backed by the groupings, such as the European Union, they are still heavily dependent on South Africa for their external trade (Gibb & Treasure, 2011,p. 17). However South Africa’s economic dominance and the benefits to other members would undermine the SACU union if it were to withdraw.
The main shortcoming of the SACU 2002 Agreement was that it failed to deepen regional integration by incorporating other crucial issues, such as trade in services, intellectual property rights, migration and foreign direct investments, to which it should be added security cooperation (Gibb, 2006, p.602-3). The institutional and political architecture associated with different forms of regional integration often reflect the priorities of member states. Gibb (2006, p. 602-3) succinctly states that “regional integration can only be strong as its constituent parts or as its constituent parts want it to be”. The post-apartheid South Africa prioritised ‘democratisation’ both domestically and internationally. However, at the regional level the democratisation process ought to be in sync with South Africa’s national interests, failing which she will not enthusiastically support it. The intergovernmental and supranational character of SACU institutions will always be constrained by the geopolitical reality of South Africa’s continued dominance, hence tension between its member states cannot be avoided but it can be managed (Gibb, 2006, p. 602-3).

4.6 Conclusion

Cooperation between Mercosur and SACU is constrained by factors within the two blocs. The examination of asymmetries within the blocs provide an indication that the political will to forge ahead with economic cooperation, has to take into account a number of other important issues, such as addressing the deficit of democracy within the two regional groupings and the need to surrender a certain level of sovereignty to the agreed regional institutions; in other words to gradually improve on the prevalent intergovernmental cooperation to supranational structures. Trade is the means through which countries could achieve economic growth and development. However, trade alone cannot lead to peaceful neighbourly relations. Actions have to be taken to address issues emanating from unequal gains from trade and the uneven distribution of benefits of regional economic interdependence. As Brown et al. (2009, p.231) attest “received wisdom suggests that trade fosters interdependence between countries, that trade agreements can help to manage disagreements between countries and that trade integration can bind countries’ divergent national interests to a common future”.
The importance of economic interdependence as a means to attain regional security is increasingly attracting international attention. The global security paradigm highlights the need to diversify international responses to inter-and intra-state tensions and conflicts. Regional integration and cooperation mechanisms such as SACU and Mercosur are a concrete articulation of this growing international consciousness on international security. It is contingent upon SACU and Mercosur to address their internal structural weaknesses as they continue to consolidate their South-South cooperation, not only in trade, but also on political issue of mutual concern. This can be in the form of national security; as Ohlson and Stedman (1993, p.103) suggest, “the chain of regional cooperation and integration is only as strong as its weakest link”.

The discussion on governance and regional integration unequivocally demonstrated that whilst there are encouraging signs to deepen integration between and within Mercosur and SACU, their integration efforts have not yet reached a high level of institutionalisation. The regional institutions that “can better facilitate peace and stability are those that are carefully designed and make a clear link between the trade and security agenda” (Brown et al. 2009, p. 239). Effective regional integration hinges on the strong character of institutions and convergence of democratic norms between members of a regional structure. Regional institutions are an important part of international governance system alongside national and global governance institutions. These institutions have a potential to manage regional tensions, conflicts and risks associated with instability. They also promote trade and contribute to political governance and broad economic development.

Regional cooperation and integration could only be effective when the countries balance the national political and economic interests with the greater good of the region. In this regard, consideration of the following issues is very important, equitable distribution of trade benefits, increased legitimacy of governments within the states, as well as the regional institutions, cooperative efforts to increase regional security, and representative and effective governance structures. The accepted notions of security as defined by state borders are being eroded by shared risks that threaten individuals and states alike; for example, terrorism, environmental degradation and
natural disasters that require an integrated regional integration and cooperation approach.
CHAPTER FIVE: Mercosur-SACU relations: observations of the study

5.1 Introduction

Debates on development are generally characterised by conflicting perspectives, theories and differences of opinion. However, there is general consensus that no single country is able to satisfy all of its development needs and challenges without cooperation and partnerships. It is within this context that this study attempts to contribute to the development discourse. In particular, attention has been given to regional integration and cooperation between SACU and Mercosur as mechanisms to promote and foster partnerships for development.

The study covered important aspects of the relationship between Mercosur and SACU. The aspects covered in the study are the political economy of the two regional organisations, the achievements and failures, and constraints to achieving the stated objectives of regional integration and cooperation. Documentation on the two organisations covering internal relations within each bloc and the relationship between SACU and Mercosur has been analysed. In the following sections attention is given to salient observations made in the analysis and discussion in the previous chapters. Proposal on how to resolve some of the challenges on the two organisations are presented in the next chapter.

5.2 Observations of the study

Regional integration and cooperation are pursued to achieve specific objectives, such as economic growth, the fight against poverty and inequality and the fight against crime. The mentioned objectives are an integral component of the concept of development which sometimes is referred to as modernisation. Describing the modernisation theory of development Szirmai (2005, p.8) states the following as its ideals:

i. “Rationality (in policy, in the application of technological knowledge and in structuring social relations).

ii. Planning for development; searching for a coherent system of policy measures in order to change situations that are considered undesirable.
### iii. Increases in production; primarily through industrialisation and increased capital intensity of production.

### iv. Improvements in the standard of living.

### v. Declines in economic and social inequality. Development ought to benefit the people, the masses.

### vi. More efficient institutions and attitudes that is conducive to an increase in productivity and to development in general. For example, institutions that promote effective competition, diligence, efficiency, solidarity, openness to change, honesty, equal opportunities, to mention just a few.

### vii. Consolidation of the national state and nation integration (to which it could be added regional integration)

### viii. Political democratisation. The concept of democratisation can be interpreted in various ways, but it involves some notion of mass participation in political decision-making.

### ix. Increased social discipline. Developmental goals cannot be attained if governments cannot impose obligations on their citizens. It must also be added that the governments should create space for the citizens to actively participate in development efforts.

Trade agreements fall within the modernisation objectives mentioned above as vehicles through which collective efforts are combined to address the developmental challenges, such as economic productivity, effective institutions that carry the burden to enable and regulate development paradigms, active participation of the people in their own development through government and social structures.

Mercosur and SACU share a number of similar challenges in their regional integration and cooperation efforts. In the discussion below attention is given to some of the common challenges:

#### 5.2.1 Institutional arrangements

The PTA is not yet operational and this makes it unfeasible to discuss trade figures and products within its parameters. However, an institutional approach is employed to discuss the institutional arrangements of SACU and Mercosur. The approach was
specifically adopted and utilised in order to analyse the processes of institution-building, the emergence and evolution of regionalism as a form of governance mechanism between states. Furthermore, the approach is used to analyse the required institutional changes and to deal with the shortcomings of Mercosur and SACU.

It is through the application of the institutionalist approach that an observation was made that Mercosur and SACU despite the passionate political rhetoric, and perhaps will to promote regionalism existing institutional mechanisms are inadequate in executing even the minimal tasks of regionalism, such as, the implementation of agreed decisions and agreements. Put plainly, institutional deficiencies hamper regional cooperation and integration. The slow progress in the ratification of the PTA is a clear demonstration of institutional inefficiencies. SACU, though it has established a permanent administrative organ, that is, the Secretariat. However, it still relies on the slow-pace of its members to operationalise the preferential trade agreement. The same holds true for Mercosur. On institutional arrangements rather than policy trajectories, Brazil, the biggest member of Mercosur, acts cautiously to prevent criticisms to be labelled as a regional imperialist power. In actual fact, the current arrangement of Mercosur as an intergovernmental institution is most favoured by Brazil, as she does not have to share her sovereignty with smaller neighbours.

Institutions are not only vehicles through which regional cooperation and integration processes are carried out they play particular roles as fundamental factors that shape political, economic or legal life. Institutions serve numerous roles, including but not limited to formalisation of governance structures as actors in their own right and the standardisation of institutional practices such as operating procedures, rules, norms, and values. Institutions also mediate and act upon the behaviour and choices of other actors. Furthermore, they provide analytical understanding on how the regional cooperation and integration processes proceed (Armstrong, 2010, p. 12). It was against this understanding that SACU member states had to renegotiate the 1969 Agreement in order to align its institutions to the current changes in policy directions, rules, norms, values and behavioural patterns of member states. However, noble as the idea was, it is yet to live up to the expectations of more substantive and integrative SACU regional agenda. This is demonstrated by unrivalled dominance of South
Africa in all aspects, namely policy directions and the administration thereof of the regional bloc.

Mercosur and SACU lack strong regional and interregional institutions that could provide a collective set of rules that govern behaviour between the member states, with particular focus on collective actions and incentives. As long as the member states are at liberty to set their own separate deadlines on meeting shared obligations, such as the implementation of the PTA, it remains difficult for the two organisations to create an interdependent political and economic space to which all members take equal responsibility to execute the decisions and agreements. Therefore, this reality undermines the observation made by Peters (1999, p.44), who states that institutions are “collections of rules and incentives that establish the conditions for bounded rationality, and therefore, establish a “political space” within which many interdependent political actors can function”.

The examination of the institutional mechanisms of SACU and Mercosur, on whether or not their structures are bounded in rationality as explained above, the outcome is a mixed reaction. The mixed reaction is due to the fact that on the one hand, the institutions of both regional groupings are characterised by immense disparities ranging from levels of economic development and political power to a lack of a common vision on the nature and scope of authority the regional organisation should have, that is, supranational or intergovernmental. The lack of a common vision on the scope of authority and formation of the two blocs constitute a serious shortcoming in the commitment and allegiance of member states to both the organisations and the South-South cooperation initiatives.

One of the important observations on Mercosur and SACU relations, is the fact that the documents analysed in this study, did not explicitly explain how the consensus decision mechanism is executed. For instance, due to the nature of the anarchical political and economic international system, a question arises as to whether it is possible that, Paraguay a smaller and poorer member of Mercosur, could openly contest Brazil’s interests in the region without fear of suffering negative bilateral consequences (such as reduction in Brazilian investment in that country, or taxation of remittances, etc). Therefore, a need exists to investigate, whether objectively and
realistically, Mercosur and SACU countries do not first discuss and canvass support for their interests before they present them to the regional organisations, thus, making the consensus principle a facade.

In the case of SACU, despite the insertion of the “democratic principle” of a consensus decision making process, South Africa still dominates the union and it is unfeasible to imagine any of the other members to overtly challenge her dominance without fear of serious repercussions on their revenue shares from the union, which they so highly depend on. Ideally, regional institutions are created to attempt to balance the political and economic power inequalities (through cooperation in trade and other areas) amongst their member, but as demonstrated in previous chapters, this is a daunting challenge in SACU and Mercosur.

Brazil’s vision of Mercosur is one of making the group a counter force to the United States’ influence in the region. Furthermore, the organisation was deliberately formed as a mechanism to de-escalate security tensions in the region, especially between Brazil and Argentina. Therefore, the documents on Mercosur and SACU explicitly demonstrate that the political and the security considerations at the regional level play a critical role in the formation of regional economic organisations. This observation poses a critical challenge in drawing a decisive conclusion on what comes first between economic and political interests. However, without contradiction, it is also possible, in view of the data analysed in this study, to deduce that both political and economic interests play a significant role in the conceptualisation of a regional organisation.

The documents on the two blocs, SACU and Mercosur, clearly indicate that the continued dominance of Brazil in Mercosur and South Africa in SACU does not assist in deepening regional integration. Applying the constructivist theory as explained by Barnett (2011, p. 159), which argues that ideas carry their meaning and relevance through institutions, which in turn are influenced by material forces as interpreted by international actors, an observation is made that the powerful members, namely; South Africa in SACU and Brazil in Mercosur, are comfortable with the existing arrangements as long as they do not threaten their dominance in areas such as trade and technical administration of the customs union (which carries significant weight in
the negotiation and determination of tariffs). In the same vein the status quo does not promote effective regional integration wherein every member takes full responsibility to shape a common regional destiny through the decisions taken and commitments made.

As both Brazil and South Africa, in this study, are founders of their respective regional institutions, a further observation is that their ideas and material forces play a pivotal role in the crafting of rules, procedures and the design of systems in Mercosur and SACU. This, therefore, explains the reluctance of both countries to take ambitious actions to reduce trade imbalances and help to address development challenges in smaller members, such as fast-tracking a region-wide industrialisation process, technological advancement, value-added exports, infrastructure development, production and manufacturing capacity-building. For both South Africa and Brazil, intraregional trade is statistically insignificant in comparison to their extra regional trade.

Taking cognisance of the above observations, a question should therefore be posed: for how long will the two regional institutions survive with their deficiencies and challenges? In attempting to answer this question, Scott (2008, p. 49) states that “institutions by definition are more enduring features of social life, giving solidity across time and space”. Adopting this definition of institutions, it is therefore, predictable that Mercosur and SACU will continue to exist albeit under changing circumstances and environments. As discussed in previous chapters, Mercosur has already moved to legitimise itself by extended its participation to civil society. Over time, this has potential to socialise its policies and reduce the democratic deficit and garner the required social support for its regional integration programme.

SACU, with its imperfections, has already survived for more than a century. Owing to the 2002 Agreement the union has, albeit in theory rather than in practice, revamped itself to respond to the current challenges of institutional reforms consistent with the wave of the promotion of democratic institutions and representation. The critical challenge is whether the adaptation of these two regional blocs would make them more effective in implementing their policies and commitments. And if so, how will they address the functional powers of the adapted institutions vis-à-vis national
interests and the gradually waning notion of sovereignty. Therefore, it is not possible at this stage to sound the death knell of these regional organisations based only to the existing challenges.

The above point of view is also shared by Scott (2008, p.50) that “although institutions function to provide stability and order, they undergo change, both incremental and revolutionary. Thus, our subject must not only include institutions as a “property” or state of an existing social order, but also institutions as “process”, including the processes of institutionalisation and deinstitutionalisation”. It is therefore, possible to draw another observation that benefits of regional integration ought to be socialised. Put differently, integration without social benefits is doomed. This is a point observed by Deutsch (1953) that any integration begins with a growing level of social interaction and communication. Notwithstanding the importance of social benefits of regional integration, this study also examines the politics of regional economic and trade integration.

5.2.2 Trade relations: are the challenges surmountable?

Trade relations between Mercosur and SACU were, like many similar inter-regional relationships, motivated by the theory of regionalism which gained popularity after the Second World War (Rapley, 2007 p.1). Regionalism is a multidimensional process and it includes regionalisation. Regionalisation is commonly used to refer “to the growth of societal integration within a region and often undirected processes of social and economic interaction” (Hurrell, 1995, p.39). These processes produce interdependence and may be formalised through regional agreements that cover different areas such as economics, social development, political and security cooperation (Best & Christiansen, 2011, p.430). States enter into regional cooperation in order to work together in the above areas and many others. Economic cooperation is where trade and other commercial preferences are discussed and agreed between states. Mercosur and SACU relations are mainly focused in this latter area of cooperation, even though cooperation also exists in other areas, such as security and maritime.
Chapter three above discussed and analysed the political economy of SACU and Mercosur. What came out abundantly clear is that, even though trade has generated increased levels of economic interdependence between the countries, a lot remains to be done in balancing trade and development. In reality, most of the work still needs to be done domestically before a truly mutually beneficial inter-regional trade relationship is firmly established. In the general discussion on development two broad approaches are usually proposed, firstly the fight against poverty and, secondly, the long-term economic and social development (Szirmai, 2005, p. 2). The SACU-Mercosur PTA is premised on the belief that trade cooperation would assist in fighting poverty through economic growth derived from the gains of trade.

It is further believed that economic growth would in turn contribute to sustainable economic and social development. This however, remains a dream in the context of Mercosur and SACU, as the said PTA is yet to be implemented. The fight against poverty approach focuses on the socio-economic problems, such as hunger and misery in developing countries. The fight against poverty approach agitates for development policies and strategies at national, regional and international levels that address issues such as green technologies, agricultural development, human resources development, increased productivity, value-added exports, to mention just a few (Szirmai, 2005, P.2). Mercosur and SACU members still struggle in these areas. Countries such as Lesotho and Swaziland are highly dependent on foreign aid and revenues from the customs union; surely this dependency is not a desirable path for development. For these countries to become fully active in international trade arrangements, they ought to make significant strides to improve their domestic capacities in the areas mentioned above.

Linked to the above is the importance of building local industries especially taking advantage of each country’s natural resources. As one of the less developed countries in the region, Lesotho possesses huge amounts of water resources, which are increasingly becoming scarce resources worldwide. An opportunity therefore, exists for the country to improve its water industries especially focusing on conservation of the water resources and its related industries. Historic studies of processes of economic growth revealed the importance of the saving and investment in the accumulation of factors of production (Szirmai, 2005, p.3), of which water is an
integral part. Therefore, investments in this area could yield other economic benefits such as technical skills which could be beneficial for the country both nationally and internationally through trade in services.

The second development approach focuses on long-term economic and social development. This approach advocates not only the strengthening of relations between developing and developed countries, but also the importance of sharing insights into the similarities and differences in development processes (Szirmai, 2005, p.3). Brazil, South Africa and Argentina are relatively advanced in their respective regions. In line with the objectives of the PTA, these countries have a shared responsibility to assist members of their respective regional organisations develop, not only through exchange of goods, but also to protect vulnerable industries such as textiles and agriculture. The successes of the three countries in establishing competitive industries such as information technology, manufacturing, beneficiation of minerals, amongst others; should be utilised to build strong regional and inter-regional industrial relations focusing on developing the citizenry, as well as generating revenue for social programmes.

Some of the challenges related to trade relations between SACU and Mercosur are related to administrative capacity constraints. In order to level the trading field both SACU and Mercosur countries, have to work together to harmonise commercial practices, such as competition policy. Competition policy refers to the set of measures employed by government to ensure a fair competitive market environment, typically involving competition laws and Competition Authorities. This is an institutional mechanism to ensure markets are accessible and competitive. Competition policy is effectively implemented at national level, but in order to promote equitable gains from trade and to deepen regional integration, it is also important to have it at regional level as well (Morrissey, 2011, p. 232).

The policy reforms proposed above could be phased in with time once a more supranational institution that could enforce the policy is in place. However, this is easier said than done. Morrissey (2011, p. 232) concurs that the “establishment of a competition culture takes time and requires relatively costly institutional reforms”. This also talks to the administrative capacity of institutions. Administrative capacity
constraints have important ramifications for deeper regional integration. Deeper regional integration requires the establishment of national and regional apparatuses to carry out the designated functions, as is the case with SACU with regards to the National Tariffs Boards. Many developing countries grapple with national political challenges in formulating stable and predictable policy regimes that are “capable of introducing the necessary administrative and legal changes necessary for harmonisation” of regional policies (Krueger, 1995, p. 62).

As stated above, the disparities within SACU and Mercosur economies are not necessarily sufficient grounds to dismiss any possibility of functioning regional integration and strong trade relations within and among these countries. A critical analysis of cooperation between and within the two regional blocs was done in chapter four. Notwithstanding the arguments therein, the experiences of the “advanced developing countries” such as Thailand, Malaysia, Chile, Turkey and Mexico, prove that even economic disparities do not deter active participation in trade and economic integration efforts (Krueger, 1995, p.69). Furthermore, relatively small European countries such as Switzerland, the Netherlands, Denmark and Belgium, developed world-class companies long before the European integration (Mbeki, 2009, p.144). The development of multinational corporations in the above relatively small European countries such Volvo, Unilever, Royal Dutch/Shell, Nokia, and Heineken, facilitated their integration into the bigger European market. The lesson from the EU is that, countries with significantly different economic structures and which are at different levels of development can integrate with their neighbours smoothly as long as they have a developed market.

The lack of common trade policies and alignment of national macroeconomic competitive conditions saw Brazil gaining more in trade relations with its neighbours. As discussed in preceding chapters, this continues to be a trend. However, the trend did not develop mystically. It relates to the national policy positions and directions followed by the country. Since the early nineties through to the establishment of Mercosur, Argentina and Brazil pursued asymmetrical national economic policies. The former adopted a ‘market-oriented approach and the latter maintained a more active industrial policy approach’ (Nofal, 1994, p. 147). As highlighted in chapters three and four, Brazil remains a more active member of Mercosur than Argentina.
This highlights the importance of pursuing a common vision that informs the agenda and policies for trade and regional economic integration. Failure to do this would simply perpetuate the asymmetrical benefits from trade.

The importance of active industrial policy in SACU is not only important, but urgently required. The Southern Africa region in general, is endowed with enormous natural resources which are currently exported as commodities, not as manufactured goods. Botswana’s economy is to a large extent supported by its vibrant mining industry which relies on exports of raw natural resources, such as diamonds. Beneficiation of natural resources is of paramount importance as it stimulates economic growth and the development of new industries. Security threats associated with trade in natural resources include violent conflicts, poor governance, and illicit trade. History is fraught with examples of countries that experienced the above social ills, countries such as Liberia (diamonds), Democratic Republic of Congo (diamonds, timber and coltan), Senegal (cashew nuts, even though this a humble resource it helped fund conflicts in that country), to mention just a few examples (Brown et al. 2007, p.4-5). These are domestic challenges, which more often than not, spill over to neighbouring countries and ought to be contained. Sadly, regional trade agreements and preferential trade arrangements by their very nature do not necessarily provide solutions either.

The PTA between SACU and Mercosur serves as a statement of good intentions. However, it is important to note that realistically, it cannot solve all trade related challenges of either bloc. One of these challenges also highlighted in the previous chapters, is low intra-bloc trade. Partly, this challenge is caused by poor trade-links such as transport infrastructure, shipping lines within the region as well as between the two blocs. For example, Lesotho and Swaziland have no direct access to sea routes of trade, all their sea-freight has to pass through South Africa. In this regard the PTA cannot address a natural challenge of geography. Therefore, it can be concluded that South Africa will continue to dominate trade links with Mercosur and within the union. Apart from sound bilateral relations, Brazil is closer to South Africa than any other Mercosur country due to shared membership of international organisations such as BRICS (Brazil, Russia, India and China), IBSA (India, Brazil and South Africa) Dialogue Forum and the Group of 20 countries (G20), among others.
In view of the above, a conclusion could, therefore, be drawn that the PTA between SACU and Mercosur is not a solution to intra-regional trade challenges. Apart from the commodities, trade also flows from manufactured goods and inputs to manufacturing. The PTA between the two regional blocs offers preferential tariff arrangements for selected products not for investment in the development of manufacturing capacity. In other words, both Mercosur and SACU members still have the responsibility to develop their manufacturing and industrial capacity. As Ofstad (1993, p. 201) puts it, “intra-regional trade stems mainly from industrialisation”. Furthermore, Ofstad (1993, p. 203) continues, “in order to industrialise, countries need export earnings to pay for the necessary capital imports, and these earnings can be obtained from exports within and outside the region”.

The question that follows; is whether the lack of or low intra-regional trade means extra-regional trade is not feasible. The answer is also offered by Ofstad (1993, p. 203) that ”in order to develop the economic structures enabling countries to increase their intra-regional trade; they have to simultaneously increase exports with the outside world beyond the region”. It is therefore, possible to conclude that intra-regional trade should not be considered an alternative to extra-regional trade, but complementary to it. Important to note is the fact that “intra-regional trade mainly takes place between relatively more industrialised countries in the region” (Ofstad, 1993, p. 203). Therefore, the PTA between SACU and Mercosur is likely to continue to benefit the more industrialised members, namely Brazil and South Africa.

In this section of the chapter, attempts have been made to respond to the questions posed in the beginning, regarding whether or not, challenges related to the Mercosur-SACU PTA can be surmounted. Thus far, it has been argued that some can be surmounted, but others cannot. In addition to the daunting challenges facing the PTA between Mercosur and SACU, and PTAs in general, the following are worth highlighting. In the case of SACU and Mercosur, the issues mentioned below remain a real threat to its successful implementation. If the scope of this study permitted, it would perhaps be interesting to assess these issues in the context of existing bilateral trade relations between the members of the two regional blocs. The challenges are summarised below.
(a) Lack of complementarities

Lack of complementarities relates to the fact that goods produced in the region are not those demanded within the region. Like many developing countries, the members of Mercosur and SACU are still producers and exporters of agricultural and other primary products and import manufactured consumer goods, capital goods, fuels and industrial inputs (Blanco et al. 2009, p.15). In order to produce some of the imported products the Mercosur and SACU countries have to undergo economic restructuring achievable through industrialisation.

Discussing the role of regional organisations in promoting economic cooperation, Ramachandani (1990, p.28) observed that developing countries should concern themselves with two major issues, namely; “to sort out urgent problems such as financial constraints and increased debt, persistent adverse terms of trade, middle and high level manpower requirements and technology related matters. These are technical issues are outcomes of narrow local resource base, limited size of market and lack of effective demand, which in turn accounts for slow pace of industrialisation and continued dependence on either mineral or agricultural exports as prominent foreign exchange earners”. The problems outlined above are relevant to the Mercosur and SACU economies. The two blocs have not succeeded yet in decreasing economic dependence of their members both on their neighbours, as well as other international financial institutions such as the World Bank and the International Monetary Fund.

To address the above challenges Mercosur and SACU ought to work collectively between the two blocs, as well as separately within each bloc to take measures that boost the economic performances of their members. Proposals in this regard include, focus on the readily available resources within each country such minerals, technical know-how in information technology to produce local products for internal and external markets such as computers, medical supplies, and many others. Investment in education, research and science are important in both stimulating economic opportunities and creating work to reduce inequality and poverty.
However, all is not lost in the developing countries of Mercosur and SACU, Szirmai (2005, p. 275) states that on the one hand, “increases in output and productivity in the agricultural sector at the early stages of development create favourable conditions for industrialisation; a dynamic agriculture, which produces surpluses above subsistence. On the other hand, this helps combat poverty. It also creates favourable conditions for the development of industry”. The Mercosur and SACU countries could turn their fortunes around if adequate and targeted attention is given to the development of the agricultural sector. The sector has potential to boost the industrial base of these countries through the manufacturing of agricultural produce and minerals.

The development of the Mercosur and SACU countries agricultural sector would be addressing some of the development problems associated with often expensive urban-biased programmes. The development of the agricultural sector could assist these countries to take advantage of the readily available labour resources to produce products such as fruits, meat and vegetables at affordable salary scales. Affordable salary scales would in turn generate more employment, reduce poverty and uplift the wellbeing of the people.

(b) Cost of doing business in less developed SACU and Mercosur members

The costs associated with the production of industrial goods are high. This is even more severe in countries such as Swaziland, Lesotho and Paraguay, which depend on foreign aid to fund their development programmes. The high costs make production inefficient. In addition to this Khan, Shaheen and Yusuf (2009, p. 147) add that transaction costs have three aspects: (i) procedural costs; (ii) transport related costs; and (iii) rent seeking. Examples of transactions required at the port of entry or exit include, sanitary standards and documentation requirements for trade. Procedural delays involve administrative inefficiencies, excessive departmental clearances and signatures. To resolve these issues it is advisable that Mercosur and SACU countries consider creating one-stop ports in order reduce the costs and facilitate trade. The relatively developed members such as Brazil, South Africa, Uruguay and Argentina, should take deliberate steps to invest in the economies of the less developed countries of SACU and Mercosur.
The cost of trading between Mercosur and SACU countries is significantly increased by the transaction costs not only financially but also in terms of time spent in completing trade transactions. All the costs mentioned above have a negative effect on trade and economic integration efforts, hence, a need exist for Mercosur and SACU to work in tandem to eliminate them as they constitute barriers to trade. However, it was beyond the scope of this study to investigate the cost of doing between the two regional organisations.

(c) Inadequate transportation

Trade takes place where there are transport links and communication infrastructure. Trade within the region and between regions is seriously constrained by long-distances and the lack of reliable transport infrastructure and services, such as railways, roads and air links. Lesotho and Swaziland in the context of SACU do not have direct and immediate access to the sea for sea-freight. For these countries it is costly to send anything from their shores by sea freight and in some instance even by airfreight due to limited air links. South Africa plays (and will continue to do so) a role of an intermediary between these countries and their trade partners.

Partly a solution to the above challenges could be devised through commitment by Mercosur and SACU to long-term infrastructure investments. In the short-term, they should vigorously develop trade opportunities in the existing transport routes. This recommendation is also shared by Khan et al (2009, p.149) that the “key benefit of utilising nearby ports is the substantial reductions in freight bills”.

(d) Deconstructing colonial relations

Developing countries are still strongly attached to their traditional trade patterns which are mainly with the developed countries in Europe and the United States of America. Developed countries provide the developing countries with incentives, such as the United States’ Africa Growth and Opportunity Act, which gives African products access to its markets through the waiver of import tariffs and promotes increased interaction with African countries on trade and investment matters.
Mercosur and SACU countries have no specific provisions to incentivise one another to exploit regional market opportunities, except the terms set out in the PTA.

In the documents analysed in this study it is apparent that economic growth intended to be achieved in the relationship between the SACU and Mercosur, has to be achieved through trade. However, trade alone is not sufficient to achieve economic growth. In order to improve their economic growth levels and potential, both SACU and Mercosur countries have to also consider investment options, such as the building of new industries and factories to process and promote goods and services offered within and between the two regions. Investments could be in areas such as manufacturing, roads infrastructure to transport goods, and information technology for innovation. These are some of the areas that assist in accelerating both economic growth and trade.

What complicates the challenges faced by developing countries both in SACU and Mercosur, is the reliance of some members on donor funding, which more often than not, comes tied to specific projects, commodities or earmarked for certain industries not managed by local people. For example, South Africa and Botswana are producers of diamonds but none of the two countries have sufficient (if any) capacity to process and beneficiate the products locally. These challenges are compounded by the fact that poorer countries such as Lesotho in the context of SACU and Paraguay with regard to Mercosur, depend on international aid in order to develop their own trade policies. The proponents of aid for trade (developed countries) argue that the combination of trade and aid policies has a “potential to increase transparency and accountability, promote the rule of law, and build domestic governing capacity. Aid and trade deals can be, and often are, created in ways that encourage and reward “good behaviour”, in addition to sharing new skills, structures and policies” (Brown, 2007, p.72). However, the problem with this is that the focus is not based on the needs of the aid receiving countries but on the interests of the donor.

The problems associated with donor funding of government programmes in Africa are further explained by Mbeki (2009, p.144) that in “most African countries social, economic and, to a large extent, political policies, are not controlled by Africans, or more accurately, by Africa’s rulers; they are controlled by foreigners who do so to the
benefit of other foreigners”. Mbeki (2009, p. 145) further lists non-African players controlling and determining African policies, namely:

(i) “Foreign multinational corporations, of which most striking examples today are the oil companies, which run massive extractive industries with almost no links to the local economies in which they operate, apart from a trickle of royalties that pay for imports to finance elite consumption and to fuel corruption and repression;

(ii) Multilateral financial institutions which, by imposing various forms of conditions, dictate the economic and social policies of African states; and

(iii) Other foreign state and non-state players who, through their role as donors and/or creditors, have extensive leverage and therefore influence over the social and economic policies of African states”.

Some of the challenges confronted by Mercosur and SACU countries can only be overcome by deconstructing colonial relations and establishing strong relations with other developing countries. The immediate benefit derived from the new relations would assist in developing independent national development policies dictated by the identified needs of the domestic economy and the affected people. The new relations will also push out donor-funded profit driven products not demanded for basic survival of the local people. It is also important to mention that it was with the development of its “unparalleled industry might, clear technological supremacy and little capital from overseas, that the United States of America took command of its economic destiny” (Nivola, 1993, p. 2).

(e) Non-tariff barriers

Generally in the world tariff barriers to trade are progressively falling by the way side, but non-tariff barriers to trade have taken centre stage. As consequence, a growing number of PTAs make provisions for norms on technical barriers (TBT) or non-tariff barriers to trade (WTO, 2011, p.140). The common provisions on TBTs cover the mutual recognition of conformity assessment, harmonisation of technical regulations, transparency provisions, and the establishment of institutional machinery, such as a committee or a body or a network for standard-related matters. “Mutual recognition
means that countries agree to recognise each other’s regulations, standards or conformity procedures as equivalent, thus facilitating the unimpeded flow of goods into partner markets” (WTO, 2011, p.140).

On the other hand, harmonisation of regulations and standards is considered a “step towards more open trade” (WTO, 2011, p.140). Harmonisation is not covered in the Mercosur-SACU PTA. Therefore, the two organisations still confront the challenge of producing similar and better substitutes for products imported outside the PTA. In order to enhance compatibility between imported and locally produced products, harmonisation makes it easier for consumers to match products. However, this cannot be said of the PTA between Mercosur and SACU. Harmonisation is also “likely to increase competition, reduce prices and increase trade” (WTO, 2011, p.140).

Once the PTA between SACU and Mercosur countries comes into effect, the two blocs need to guard against protectionist tendencies in developing and developed countries alike. These tendencies are also called non-tariffs barriers to trade. In many instances non-tariff barriers are implemented by governments that are put under pressure by domestic interest groups who stand to lose profit and business under a trade agreement. In this regard the two blocs should guard against the protectionist tendencies outlined by Thompson (2011, p. 71). The summary of these follows below:

i. Quality upgrading

“Import quality upgrading occurs when a country or exporter limits the quantity of items per product, for instance, cars. In place of the limited quantity, the country or exporter will sell high quality cars if the profit per unit is higher. The significance of this is that even if the quantity is less than the originally agreed amount and has been reviewed in terms of the trade agreement and found to be detrimental to the local market (in terms of loses and skewed gains), the benefits from high quality products will perpetuate uneven benefits from trade. This is particularly relevant to SACU and Mercosur as current trade trends are favouring the more advanced economies of South Africa and Brazil.

ii. Legal trade restrictions

“Legal trade restrictions are designed to favour domestic industries. For example, telecommunications and electric utility
industries are government franchises protected from foreign competition. Lawyers, doctors and other professionals restrict practices across borders. Health laws are selectively and unfairly applied to foreign goods. Phyto-sanitary and sanitary measures are implemented to discourage trade in certain products and industries. Examples in this regard, are foreign fruits infected with insecticides or meat products from countries that suffer animal diseases such as ‘mad-cow’, foot and mouth, etc”.

Precautionary measures against the above trade restricting measures are of absolute importance in the implementation of Mercosur and SACU’s PTA as the majority of countries still rely on trade in agricultural and farming products. Successful trade in such products could be a game-changer in the national economies. However, constant monitoring is necessary to ensure fair application of product standards. This in turn points to the institutional challenges of the two regional organisations. In the absence of a dedication institution assigned to deal with the administration of the PTA both from the Mercosur side as well as SACU, trade in agricultural products could both make and break the emerging commercial relationship. Protectionist tendencies vary across industries and are thorny issues in international trade. Therefore, they have to be managed with diligence and thoughtfulness.

In many instances trade flows are induced not only by removal of trade-related barriers. For instance, the removal of barriers both tariffs and non-tariffs, ought to be complemented by certain institutional pre-conditions at the regional level and these should be met. The preconditions include but are not limited to, communication channels, transport links, policy and regulatory frameworks for supporting investments need to be created before trade can reach its full potential (Khan et al. 2009: 147). However, as explained in the preceding sections, the PTA between SACU and Mercosur currently focuses on trade and not investment. The creation of the enabling environment just explained above, should be relatively easy to achieve since the PTA is signed.

5.2.3 Regional leadership

For the purpose of this study a definition of leadership is borrowed from Stewart-Ingersoll and Frazier (2012, p. 69): “leadership is the act of eliciting cooperation
toward or acceptance of shared objectives and a means through which to achieve them amongst members of a group”. As observed in this study, regional leaders actively seek to influence each other through many different ways such as unilateral actions or through multilateral institutions. At times the leaders “effectively exert command and co-optive power over regional members in order to generate their consensus, cooperation, or acceptance with respect to both the shared interests and the mechanisms for their attainment” (Stewart-Ingersoll and Frazier, 2012, p. 69). In this section it is observed that leadership has a specific application than just power and is more broadly applied than its common reference to hegemony.

As discussed in this study there is growing importance attached to regionalism and regionalisation. However, the two cannot exist without leadership that provides direction to the structures that facilitate regionalism and regionalisation processes. For better understanding of regional leadership a definition of regional power is provided by Nolte (2007). Regional power is a state “or part of a region which:

i. is geographically, economically, and political-ideationally delimited;

ii. articulates the pretension of a leading position in the region;

iii. influences the geopolitical delimitation and the political-ideational construction of the region;

iv. displays the material, organisational, and ideological resources for regional power projection;

v. is economically, politically, and culturally interconnected within the region;

vi. truly has great influence in regional affairs;

vii. exerts this influence by means if regional governance structures;

viii. defines the regional security agenda in a significant way;

ix. is recognised as a leading state, or at least respected by other states inside and outside the region;

x. is integrated in inter-regional and global forums and institutions where it acts, at least in a rudimentary way, as a representative of regional interests” Nolte (2007, p. 15).

One of the observations of this study is a clear indication that South Africa, in the case of SACU and Brazil, in the case of Mercosur, both meet the above characteristics of a regional power. This has been demonstrated in a number of ways in preceding chapters raging from population size, geographic location to economic capacity and roles played in regional structures. Furthermore, the two countries are also classified
as middle powers. Keohane (1969, p.298) defines ‘middle powers as states whose leaders recognise that they cannot act effectively alone but that they may be able to have a systemic impact in a small group or through an international institution’. The observations in this section relates to the role and significance of regional leadership in leading integration and cooperation. South Africa and Brazil therefore feature prominently for the reason provided above.

Regional leadership is largely driven by an individual, normally a head of state who espouses the idea of a region (as single entity with shared vision and destiny). For instance, Brazil was considered a passive regional power in South America marked by ‘self-isolation’. The situation was dramatically changed by the regional initiatives of former President Lula da Silva who in his foreign policy “prioritised a prosperous and stable South America”. Currently regional interactions in South America, albeit with challenges, discussed in this study, are marked by economic, military and cultural cooperative attitudes (Flemes, 2009, p.100). The foregoing signals augur well for regional integration.

The regional agenda of da Silva’s administrations expanded Mercosur’s traditional focus on trade and economy driven foreign policies to a more political or strategic focus aiming at the construction of a regional power base (Flemes, 2009, p.101). This demonstrated the willingness to provide regional integration leadership recognising the reality that trade and economic cooperation do not occur in a vacuum. In actual fact, this was an endorsement of the reality that for trade and economic development to take place, there has to be a conducive environment that would entice countries to cooperate with one another. This observation is particularly important in view of the fact that countries do not benefit equally in trade and economic cooperation, but have other important common interests they stand to equally benefit from, such as regional peace and security.

In sync with the analysis of this study, the regional agenda and leadership provided by da Silva, directly counterbalanced other major challenges of Mercosur, such as “structurally rooted and recurrent internal trade conflicts” (Flemes, 2009, p.101). The cooperation of other Mercosur members in the extended agenda of the organisation also demonstrates their respect and confidence in Brazil’s regional leadership.
Regional integration and cooperation requires leadership that is able and willing to rise above divisive and conflict interests, such as trade deficits, to place equal focus on other important areas of common concern and benefit, such as defence and security. Beside trade and economic matters, Mercosur members are highly active in defence and security cooperation, which intensified their efforts to combat multilaterally organised crime and transnational security threats, such as drug trafficking and terrorism.

Owing to its foundations and also to the fact that its members are also party to bigger regional organisations, the Southern African Development Community (SADC), SACU members mainly focus on trade and economic matters and other issues are taken care of by SADC. However, appreciating this fact does not necessarily deter SACU from expanding its agenda and scope of work to also engage in talks about transnational issues, such as organised crime and climate change. Expanded cooperation between members of a group has a potential to raise confidence and trust levels; the members place to each other as they are likely to find common ground in more than one issue area. Another important benefit of expanded cooperation is that, countries are likely to play leadership roles in different areas and specialised operations. For instance, in SACU, Swaziland is the only country that is still ruled by a monarchy.

Notwithstanding the political, economic and social challenges facing Swaziland’s monarchy and the fact that it seems obsolete and an unfashionable governance model, it however, plays a critical role in the conservation of social values which assist in the building of a common identity of the people who share or can relate to a particular culture. Culture plays an important role in the integration agenda as government policies and programmes have to be adapted to meet societal needs and values. The differentiated leadership roles have a potential to have positive spill-over effects such as voluntary compliance with and commitment to regional initiatives, as all participants take ownership of the integration agenda and share a sense of belonging and responsibility. To sum up the observation and recommendation for diversification of regional leadership, Mace and Loiseau (2005, p.109) state that “power is issue-specific, and its exercise depends on various factors linked to the specific context of a regional arrangement”.
Substantiating the significance of a regional identity Flemes (2009, p.102) states that after “institutionalisation and cooperative attitudes”, have been obtained, the region ought to call for internal “collective identities”. The author further argues that the regional “we-feeling” is enhanced by “common social problems such as poverty of great parts of the population and the concentration of high income in the hands of few”. It must be hastily added that, the impact of these on regional integration ought to be a subject of a separate scientific enquiry which could contribute to a better and nuanced understanding of the influence of domestic dynamics in regional integration. Clearly therefore, a conclusion could be drawn that regional leadership can be pursued by different states based on their national strengths and opportunities available within the regional structural configurations.

In the context of the above conclusion, it must be further stated that smaller members of both Mercosur and SACU, should strive to have a space to showcase their leadership capacity. This would certainly counterbalance the role and influence of bigger members such as South Africa and Brazil. For if these states fail in this task, regional institutions could easily become power-bases for bigger members to project their power globally, in other words, misuse their regional power. On the other hand, regional power dynamics “limit the leader’s foreign policy options as other members seek to constrain the rising powers by refusing to grant them the necessary acceptance and legitimacy” (Flemes, 2009, p.103). For example, in Mercosur, Argentina challenges Brazil’s regional power in certain areas, in SACU Zimbabwe undermines South Africa’s leadership in Southern Africa.

The above observation and recommendation for diversification of regional leadership is further propounded by Pedersen (1998, p. 2002) through his discussion of “cooperative hegemony”. Pedersen argues that great powers are inclined to opt for one of the four different strategies, namely: unilateral hegemon, cooperative hegemon, empire and concert. The difference between unilateral and cooperative strategies, lies in the higher degree of institutionalisation found in the latter (Pedersen 2002, p.683). In other words, cooperative hegemony is the kind of behaviour demonstrated by a great power with a strategy characterised by the “use of soft-rule within and through cooperative arrangements based on long-term strategy” (Pedersen,
Therefore, the leading SACU and Mercosur countries, namely South Africa and Brazil could improve their working relations with other members if they utilise more cooperative strategies, not only through the consensus decision-making mechanisms, but also in the implementation and management of the organisation’s policies and programmes.

In the documents analysed on Mercosur and SACU, an observation is made that regional leadership as a phenomenon, should take into account the different strengths of the members of the group and accord them space and responsibility to lead in areas where each has comparable abilities. Confronting mushrooming cross border challenges such as threats to economic environment, regional powers; in this case Brazil and South Africa, should adopt cooperative hegemony strategy because of its many advantages including advantages of scale, stability, inclusion, and diffusion. Advantages of scale imply power aggregation and this is applicable to Mercosur and SACU which have large power differentials. Stability matters more as it implies greater regional economic and security predictability. Stability furthermore becomes a very important objective if neighbouring states feel threatened by the military or economic superiority of the regional power. Advantages of inclusion and diffusion have a potential to give access to resources and facilitate regional arrangement. Diffusion of the regional hegemony’s ideas could help promote greater cohesion at lower cost than disseminating those ideas through coercion (Mace & Loiseau, 2005, p. 110).

In order to implement the cooperative regional hegemony strategy there are preconditions that need to be met. Among these, is the hegemony’s capacity for power sharing. Pedersen (2002, p.689) defines power sharing as “… a “big power’s” capacity to share power with its neighbours on a durable basis within common institutions with significant competencies”. This is precisely one of the significant observations in this study that, Brazil and South Africa, ought to do more in ensuring that their neighbours equally play prominent roles in implementing the Preferential Trade Agreement and the regional integration agenda in general.

In the case of South Africa, which is slightly different than that of Brazil playing a clear regional leadership role, is somewhat constrained by the historical legacy
(explained in preceding chapters). The regional policies of apartheid South Africa, led the country to isolation by its neighbours, as well as by other states. A pronounced articulation by South Africa at the regional level would run a risk of isolation by its neighbours who are cautious in their dealings with the regional power. Consequently, South Africa’s leadership claim is demonstrated more at a global than regional level. Flemes (2009, p.153) states that “South Africa’s example, shows that acceptance of leadership at regional level determines whether the claim to leadership is articulated subtly, clearly or emphatically”.

However, South Africa needs to overcome its lack of regional leadership acceptance by focusing on institutional and discursive foreign policy instruments. According to Flemes (2009, p. 154) “regional policy goals could be explained better and deficiencies of the past should be admitted openly”. The success of this leadership quest also depends on the support and partnerships with countries such as Brazil, which has been increasing prior and post Mercosur-SACU PTA negotiations with South Africa. The joint membership of South Africa and Brazil in South-oriented structures (for example, Group of 20 Countries, India-Brazil-South Africa Dialogue Forum (IBSA), Brazil-Russia-China-India-South Africa-BRICS), is in sync with the idea of building strong regional leadership basis.

The aggregation of the interests and influence of domestic social formations could serve as an important tactic to gather common views and inputs in the direction of regional groups such as Mercosur and SACU. This is a point that, more often than not, comes up in regional integration dialogue and cooperation. Therefore, cooperative hegemony discussed above should not be made an exclusive preserve of intergovernmental structures but should cascade to civil society level as well. The role of civil society formations in regional integration has to be strengthened.

Geldenhuys (2009, p.153) strengthens the discussion on regional leadership by citing Ridell-Dixon’s (2005, p.1067-68) typology of leadership. Geldenhuys (2009) further qualifies the citation as not deliberately being designed for regional leadership but has relevance and applicability to South Africa’s foreign policy direction. Ridelle-Dixon’s (2005) in (Geldenhuys, 2009, p.153) typology of leadership covers the following examples applicable to South Africa as a regional power:
i. “Intellectual leadership, this entails offering fresh ideas, new perspectives, and creative ways of conceptualising problems. This is a relatively rare form of leadership in world politics. The example of this type of leadership in South Africa is the promotion of democracy which was formulated during the reign of former Presidents Nelson Mandela and Thabo Mbeki. This idea is based on the belief that “our foreign relations must mirror our deep commitment to the consolidation of a democratic South Africa, and that “just and lasting solutions to the problems of human kind can only come through the promotion of democracy worldwide” (Mandela 1993 cited in Geldenhuys 2009:155).

ii. Entrepreneurial leadership, this is vital to selling the creative ideas of intellectual leadership. It involves the creation of international norms, agenda-setting, the facilitation of negotiations and agreements, and the formation of coalitions. Geldenhuys adds that “soft balancing” could be added as another form of coalition building. It offers a regional power a way of responding to a global hegemon with whose unilateral actions it is seriously at odds.

Entrepreneurial leadership could market intellectual leadership through norm creation. “Norms are defined as collective expectations or understandings of the proper behaviour of actors” Katzenstein (1996:5) and Legro (1997: 33) cited in Geldenhuys (2010: 159). Norms could be formulated through unilateral actions by a hegemonic power or multilaterally through intergovernmental interactions and organisations” (Geldenhuys 2010:159).

iii. Implementation leadership, this type provides the resources to translate policy positions into concrete actions. Among others, this could comprise the setting of an example for others; ensuring that the leader country’s legislation conforms to its international commitments; fulfilling its obligations in practice; and assisting other neighbouring states in meeting theirs. Therefore, regional leadership goes beyond formulating and articulating ideas to marketing and implementing them”.

The above discussion on types of regional leadership is aggregated under one definition of what is called ‘ideational leadership” (Geldenhuys, 2009, p.153). In international relations the analysis of the role of ideas is associated with the constructivist theory. “Ideational structures are just as important as material structures” in shaping the behaviour of political actors, whether as individuals or states (Reus-Smit, 2005, p. 196). In particular ideas can be regarded as social forces
not merely insofar as they structure wants and needs, but “also to the extent that they suggest ways of looking at the world that can either close or open up avenues for fundamental transformation” (Nel, 2006, p.110). It was the realisation of this significance of ideas that the above discussion was incorporated in the study, especially the relevance of the discussed aspects in regionalism and integration.

In concluding this section, it is important to state that the literature analysed in this study clearly prove that in the relationship between Mercosur and SACU, there are mainly two countries that are in the forefront, namely South Africa and Brazil. The two countries are considered regional powers that provide leadership in shaping and directing their respective region’s integration objectives. Therefore, the actions of the two countries, both unilaterally or through multilateral arrangements have a potential to influence the reaction or behaviour of their neighbours. South Africa and Brazil ought to exercise their leadership responsibilities without any use of force or military power for them to enjoy enduring legitimacy. This recommendation is based on the reality that eliciting behaviour of a group in order to do its members harm is not leadership, but exercise of power. Therefore, “the essence of leadership is suggested to be related to the shared interests of the relevant group and the ability to understand, frame and achieve those objectives” (Stewart-Ingersoll and Frazier, 2012, p.73).

5.2.4 South-South Cooperation in the context of the Mercosur-SACU PTA

Notwithstanding the challenges discussed in this study, the potential contribution of the PTA in promoting South-South cooperation cannot be dismissed. However, the two organisations, that is, Mercosur and SACU, have to establish working relationships in more than just one area of trade. The documents analysed in this study fall short in discussing in detail the challenges and opportunities confronted by the two regional bodies in the very same area of trade. For instance, no document was found explaining in relative empirical terms the projected revenues to be generated by the two regions from the PTA over a short or medium term. Such an assessment could assist in determining whether the selected products in the PTA have potential to make a meaningful contribution in economic growth of the SACU and Mercosur countries as envisaged.
The PTA is itself a challenge. It is a challenge in the sense that only Brazil and South Africa and Argentina to a certain extent, produce quality value-added products capable of generating good revenue from trade. This therefore, generates concern as to whether the smaller and less developed countries, such as Lesotho, Swaziland and Paraguay, will be assisted by the PTA to improve their economic conditions, not only in terms of trade, but in developing their productive capacities and diversifying their production activities. In achieving this objective Mercosur and SACU would be able to not just alter the structure of exports but also the structure of production.

In the documents analysed on the PTA between Mercosur and SACU, there was less focus on the type of economies these developing countries should establish. For example, developing countries in particular, Mercosur and SACU members, need to develop efficient, innovative and growing prosperity economies, where all citizens enjoy equal opportunity to find work and access public services such as education, health, sanitation, to mention just a few. It can only be hoped that when implemented, the PTA will expand the scope of cooperation between Mercosur and SACU to take into account the matters mentioned above.

Mercosur and SACU countries should also pay due attention to the development of the cooperation infrastructure such as, roads, ports, and railway systems in order for their economies to be able to handle the demands of modern business. The existence of customs union, free trade and free market, will not be able to stimulate economic growth intended in such arrangements independently. Not until a conducive environment that enables infrastructure is put in place. The development of the Mercosur and SACU infrastructure ought to be evenly spread amongst the members in order to diffuse potential tensions that could be triggered by uneven benefits of regional integration and cooperation. Uneven benefits from regional integration and cooperation could be manifested by disproportionate commercial opportunities enjoyed by a single country within a regional bloc due to its most advanced infrastructure and skilled labour supply.

South-South trade and cooperation in the context of Mercosur and SACU should enable the countries to not just exchange products, but to qualitatively improve the standards of living. The people should be empowered to produce products that could
find markets locally and abroad through investments in their skills and capabilities. In other words, trade should not just be about the business of making money, but also about social development. South-South cooperation for Mercosur and SACU, though not discussed in detail in the documentation analysed in this study, should also include the placement of a high premium on promoting the exchange of ideas between government and non-governmental formations. Practically, this means that the two regions should be able to engage each other in areas such as foreign policy which broadens the understanding of South-South Cooperation beyond the specialised sphere of trade. Such exchanges will benefit both big and small members of the two organisations both at global level, as well as in promoting intra-and inter-regional cooperation.

In dealing with South-South trade issues, the documents analysed on Mercosur and SACU fell short in providing information on which products are currently traded between Mercosur and SACU collectively and separately. It is therefore, not feasible to determine on which products SACU countries have a comparative advantage that is not utilised and the same applies to Mercosur. The lack of this information also makes it difficult to understand whether the business environment in Mercosur countries encourage trade with SACU or not, and vice versa. The above concerns present an opportunity for further research on the relationship between the two blocs. In this regard, both exports and imports companies would need to be surveyed in order to get their views on the above matters since they are the main players in international trade.

The success of the Mercosur-SACU PTA does not only depend on the removal of tariffs and non-tariffs barriers between and among member states, but also on competition of their products with others supplied by other countries in the same market. For example, conveyor belts from SACU will compete in the Mercosur markets with belts from the People’s Republic of China or the United States of America. To guarantee market access for SACU products, Mercosur countries should take a political decision to purchase from SACU countries. In other words, Mercosur countries have to balance political and economic considerations. Political considerations relate to cooperation between the regions in other areas such as security, maritime, technical and scientific exchanges, etc. Economic considerations relate to the comparison of prices and quality of the two competing products from
SACU and other countries which have trade arrangements with Mercosur. The same line of thinking applies to SACU. Therefore, clearly in this instance, the PTA does not guarantee unhindered market access of SACU products in the Mercosur countries and vice versa.
CHAPTER SIX: Recommendations and Conclusion

6.1 Introduction

Inter-regional cooperation between SACU and Mercosur, as is the case with many developing countries or the South was informed and fostered by specific realities, such as the legacy of their colonial past of underdevelopment. Added to this, is the small size of their member countries’ economies both in population and economic activity terms. Furthermore, although the regions are endowed with natural resources these are not evenly spread, thus presenting unequal economic potential and development opportunities. The foregoing, therefore, indicates a clear need for both regional blocs to widen their economic horizons of development through cooperation and trade. The need is further reinforced by the desire to replace the colonial orientation of exploitation of natural resources and people, with mutually beneficial economic cooperation with other developing countries of the South.

In line with other preferential trade agreements, the PTA between Mercosur and SACU covers a limited scope of products and focuses on market access of such products. Nevertheless, the recommendations in this chapter focus on broader regional and national issues, which when properly addressed, could form firm foundations for the successful implementation of the PTA. The recommendations if implemented, could tackle deeper cooperation and integration issues through widening the scope of areas for interdependence and region-building. This is recognition of the point made in the previous chapter that, trade and cooperation do not take place mechanically; deliberate steps and actions have to be taken to make these possible.

The preferential trade agreement between SACU and Mercosur is not a panacea for all the economic ills of any of the two regional formations. However, there are steps that can be taken to improve the current situation of low-intra-regional trade; commodity dependent economies; low or absent industrialisation; high-dependence on one dominant and relatively developed group member, and many other challenges discussed in this study. Integration can be achieved through a number of various and interrelated actions not only the traditional removal of tariffs and non-tariffs barriers. Some of these actions are recommended below:
6.2 Recommendations

6.2.1 Building effective integrative institutions

This recommendation is born by the realisation that institutions “operate within and are affected by transnational processes and structures, organisational fields are affected by societal as well as organisational phenomena. Organisations operate within fields that shape, constrain, and empower them, but are also influenced by the interests and activities of their own participants” (Scott, 2008, p. 214). SACU and Mercosur should invest adequate resources and capital in building institutions that further the economic, as well as political goals of cooperation and integration. Without such institutions as is the case in certain area, such as national tariff boards in the case of SACU, national integration institutions in the case of Mercosur, it remains difficult to measure progress or lack thereof in both cases.

The strengthening and building of effective integrative institutions is in sync with the reality that “the extraterritorial effects of national policies, intended or not, are real and unavoidable in an economically and socially interdependent world. Supranationalism requires that the interest and concern of nonnationals are taken into account within the national polity” (Joerges & Neyer, 2010, p.239). Therefore, in the above sense, supranationalism confers political rights and not just economic freedoms to citizens. This is to be understood as a fundamentally democratic concept of integration. In other words, the supremacy of regional agreements gives expression to all the interests of the parties to it. The supremacy, therefore, “requires the identification of rules and principles ensuring the co-existence of differing constituencies and the compatibility of their objectives with the common concerns” (Joerges & Neyer, 2010, p.239). Upon ratification of the PTA, Mercosur and SACU members ought to jointly establish institutions that would be entrusted with the responsibility to implement, monitor and evaluate the effects and impact of trade on the agreed preferential arrangements.

South Africa and Brazil, should seek to establish a strong degree of institutionalisation so that the management of regional affairs is done more
efficiently. Secondly, the two countries should ensure that other members are accorded an opportunity to voice and pursue a collective regional agenda. In so doing, they will strengthen the legitimacy of Mercosur and SACU. Practically, Brazil and South Africa should actively oversee the development of institutions or remodelling of the existing ones in sync with the cooperative regional hegemony strategy. Explicit and effective institutions help the regional integration process to move with some discernible speed and also assist to thwart threats that may stall the processes. Finally, the strengthening of cooperation on the institutional framework should be viewed as a step towards opening more trading opportunities by promoting the implementation of agreed measures and terms of trade. Institutions generally assist in bridging the gulf between law and practice.

6.2.2 Explicit and authentic harmonisation of national economic policies

For the PTA to be fully operational and beneficial to individual members of SACU and Mercosur the regional institutions should be accorded a legal and enforceable responsibility to ensure not merely the removal of tariffs, but equally important to facilitate coordination and harmonisation of agreed regional policies. It is on the basis of this understanding that punitive measures should be designed and executed against non-compliance. In the same vein, incentives through perhaps common development funds should be made available to members for the policy reforms to be implemented.

It is important to highlight that traditional theories of regional integration advocate the harmonisation of regional process. This is important, but for that to happen effective integrated institutions need to be institutionalised. The institutional arrangement for not only coordination, but also collective planning and harmonisation, could boost inter-state and inter-regional confidence in regionalism and substantive rather than theoretical interdependence. Effective collective and transparent regional planning, harmonisation and policy coordination could prove to the sceptics that the PTA between Mercosur and SACU is not an empty exercise.

The above recommendation is supported by (Krueger, 1995, p. xxiv) who states that “coordination involves jointly designed mutual adjustments of national policies. In
clear-cut cases of coordination, bargaining occurs and governments agree to behave differently from the ways they would have behaved without the agreement”. Argentina’s renationalisation of its oil company is a case in point of a government that behaves as it pleases for the sake of promoting its national interests. Explicit harmonisation requires agreement on regional standards. It typically entails departure from decentralised decision-making and support the strengthening of regional or international institutions. Examples of a working harmonised integration system are found in the European Union.

6.2.3 Inclusive democratic participation of the civil society and social formations

The call for civil society participation in regional integration is fundamentally informed by the realisation that, even though states are primary actors, they do not always represent the interests of the ordinary people. This is borne by the fact that significant political participation is limited to a minority that runs the affairs of the state. The same minority also enjoys the right to exercise political power in determining policies and programmes of the state. Therefore, the state is not always a true representative of the public will.

The significance of this recommendation lies in the fact that many regional integration and cooperation efforts have been rendered ineffective due to lack of support of regional programmes and policies at national level. Most importantly, the lack or poor participation of the civil society in regional integration efforts creates a negative perception that regional relations are merely at government-to-government level and have no direct bearing to the daily lives of ordinary people. This further makes the people ignorant about regional issues not only in terms of threats to their lives but even on opportunities inherent in cooperation with others.

The above situation poses a serious threat to regional integration and cooperation, even more so when benefits are not evenly distributed between member states. This is when civil society and social groups adopt an aggressive and non-cooperative stance on regional cooperation. It is therefore, absolutely important that civil society organisations in all their formations and interest persuasions are intimately drawn-in
to participate in regional cooperation and integrative efforts. This would also reduce the democracy deficit in regional representation institutions and processes.

The participation of civil society and social formations in regional integration has also been advocated in the most advance model of regional or continental integration, the European Union. Even in the European Union calls have been made to socialise the organisation and not use social policy merely to cushion member states against negative economics of the markets (Armstrong, 2010, p.26). In Mercosur, Brazil prefers a loose cooperation of member states through diplomatic channels and in SACU cooperation also takes place within government structures. The shortcoming of these two institutions at present, is that they create what Armstrong (2010, p.26) refers to as ‘social deficit’. Therefore, the argument in favour of the participation of social formations and civil society, is the realisation of the erosion of the boundary between the economic and social spheres of human life.

Civil society and social formations involvement in any process helps to achieve two vital objectives. The first of these is the legitimisation of the process through inclusive representation of all parties. The second objective also linked to the first one, is the strengthening of governance processes and structures through reflection of common vision, mission, values, principles and aspirations of the relevant parties. The foregoing factors play a major role in the work environment as they provide organisations with social identity. Jackson (2010, p. 189) argues that the “modern workplace provides a major platform for the development and enactment of who we are”. In other words regional organisations, as discussed in chapter three ought to reflect the social identities of their members.

In a nutshell the participation of social formations assist organisations both at national and international levels to operate better and effectively. The effectiveness comes through the social identity which gives a sense of belonging. It is this sense of belonging that is particularly relevant to regional organisations as it determines how states and individuals perceive and act towards other people and institutions. Summarising the influences and effectiveness of identity in organisations, Jackson (2010, p. 190) writes that organisations should strive to achieve:
i. “Cooperative behaviour, which is the disposition to act in ways that are beneficial to the organisation and refrain from actions which harm the organisation.

ii. People’s affective commitment with a group, where their social identity has a strong emotional component, appears to be a crucial factor in determining whether group members behave in accordance with their group membership.

iii. The development of identity through effective socialisation (with the associated acceleration of productivity) gains in importance when one considers the trend toward the hiring of workers”.

It was the recognition of the above benefits that this study advocates a theory and practice that make social formations advocates for effective regional integration and not agents of resistance. It is well-known that the effects of any policy or programme are better evaluated through the impact on society and their reaction to the costs and benefits. Put differently, regional agreements have meaning if they materially change the economic as well as the social lives of the people for better not for worse. In other words, regional agreements should develop societies and add value to the existing working practices and not destroy that which they found beneficial to the people.

6.2.4 Building a common regional political governance model

The political governance model relates to the dynamics involved in not only establishing regional integrative institutions, but also the authority, the nature and policies of such regional institutions. More often than not, these matters are highly dependent on the political ideologies pursued by ruling parties at national level. For example, liberal parties are often pro regional cooperation and integration. The understanding of such parties is that through cooperation, countries and people become integrated and interdependent, thus reducing the threats of conflicts and war. Other parties such as nationalists, communists and/or socialists formations are less inclined to support the opening up of national borders due to the belief that such a move erodes social and communal values, beliefs and traditional ways of life. The contention is that these are replaced by too much focus on economic aspects of human life.
In view of the above presentation of different perspectives on regional cooperation and international relations in general, it is clear that political ideologies play a significant role in whether or not a regional agenda is supported or rejected at national level. In dealing with this daunting challenge, it is desirable that countries at a regional level attempt to develop a common political agenda that may be adopted at national level. Such an agenda could include issues, such as periodic elections of national government leaders; legally protected participation of civil society in governance processes; substantive promotion of rights such as trade union participation and membership; and access to information. These few examples have a direct bearing on legitimacy and democracy questions in relation to regional processes.

A clear political governance model could further assist in addressing issues related to agenda setting at regional level. For instance, with a clear political governance model, it could be easier to deal with cases where a member of the organisation decides to unilaterally embark on nationalisation of enterprises with foreign investments and capital. Furthermore, at regional level it could be possible for the regional organisation to agree on what and how such issues should be raised with developed countries and how benefits will be distributed. The recent tensions in SACU over the economic partnership agreement negotiations with the European Union is a case in point where members accused each other of pursuing narrow national interests at the expense of regional integration.

The political governance model could also assist in dealing with issues related to claims and protection of sovereignty. Regional cooperation and integration has not been fully operational due to unilateralism tendencies of some members of regional organisations. Still related to sovereignty issues, countries hide behind their sovereignty when they face national resistance to implement regional programmes and agreed commitments. Sovereignty and the absence of supranational structures render regional cooperation ineffective. The recommended model in reality rejects strict political sovereignty of states and embraces regional defence of universal or non-nation values such as human rights, and environment protection to name a few. It is a model that “constrains the exercise of individual nations’ sovereignty through
international negotiations, or if necessary, by even stronger intervention” of regional institutions (Krueger 1995: xvii).

The recommendation for the regional political governance model is further strengthened by Krueger (1995, p. xvii) who states that “cross-border economic integration and national political sovereignty have increasingly come into conflict, leading to a growing mismatch between the economic and political structures of the world”. It is precisely for this reason that a regional political governance model is preferably adopted to enable the regional institutions to implement agreed policies with less or no restrictions of sovereignty. Such a model will potentially prevent national governments in implementing domestic policies, such as nationalisation, without due regard to effects of such policies on other nations investment.

National governments and regional organisations must incrementally up the stakes in dealing with deeper ‘behind-the-border’ integration. For Krueger (1995, p. xviii) deeper integration requires the comprehensive analysis of the “economic and political aspects of all non-border policies and practices. These aspects also include the analysis of bilateral economic relations between members of a regional organisation and other countries not members of the same institution. Lax rules in one nation erode the ability of all other nations to enforce regional agreements, for example in the banking and securities markets. On the contrary, nations can also benefit from one another, for example, in the rapid diffusion of knowledge, science and technology policies in one nation that generate knowledge that other nations can use without full payment”.

The regional political governance model could also assist in resolving tensions that arise between states regarding diminishing national autonomy (Krueger, 1995, p. xviii). For example, states adjust monetary and fiscal policies to influence domestic inflation and employment. In the same vein, smaller countries are constrained by foreign economic events and policies. The recent 2007-2008 global economic downturn is a case in point. The recent global event, even though to varying degrees, constrained all nations in their monetary and fiscal policy choices. In view of this reality, a regional political governance model could assist countries to develop collaboratively macroeconomic policies that would better yield regional economic.
goals of creating employment and fighting poverty and underdevelopment. In the absence of a regional political governance model, states struggle to deal with cross-border spill-over issues such as pollution, migration, communicable diseases and so forth.

The regional political governance model advocates for consensus in which governments agree on rules that restrict their national freedom to set policy on agreed areas. This is done in order to promote gradual convergence in the structure of regional policies that are harmonised at national level. National governments and their structures would conduct regional consultations and monitoring of compliance with agreed rules. Krueger (1995, p.xxiv) refers to the latter process as monitored decentralisation. This is currently not happening either in Mercosur or SACU, member states’ compliance with agreed rules is still not effectively monitored.

6.3 Conclusions of the study

In this chapter attention was first given to the observations of the literature and data analysis in the preceding four chapters. Secondly, focus was also given to the recommendations based, on the one hand, on the literature and data analysis, and on the other hand, on the observations made in the preceding section. Therefore, this section seeks to make concrete conclusions on the contribution of Mercosur and SACU’s relationship in the advancement of the agenda of the South.

(i) Regional integration as a vehicle to promote economic development

In this study it was demonstrated that regional integration through agreements that cover economic and commercial relations between states has two intrinsic possibilities. The first of these is the entrenching of asymmetries as demonstrated in the case of Mercosur and SACU. An analysis of the literature available on Mercosur and SACU intra-regional trade proved that, the more developed countries in the region benefit more in intra-regional trade and due to the sizes of the smaller members’ markets, the bigger members trade more with partners outside the region.
In light of the above a conclusion could therefore be drawn that, regional trade and economic partnership agreements do not spontaneously contribute to evenly shared economic benefits. In order to yield equitable economic benefits, members of Mercosur and SACU should collectively devise mechanisms that could reduce the economic asymmetries. A recommendation has been made that one of these mechanisms is to develop active regional industrial policies. The industrialisation process should be driven by each country’s comparative advantage in relation to the availability of primary inputs such as natural resources. Human resources and industrial capital goods such as technology and machinery could be obtained through intra-regional partnerships and cooperation with other regions.

The second intrinsic possibility of regional economic arrangements is that, neighbouring countries tend to use the opportunity presented by these to also explore other areas for cooperation. The expansion of economic cooperation to other areas such as security, political and social spheres at regional level, demonstrate the reality that states have more in common than mere narrow economic interests. In this study, Mercosur is a clear example of this phenomenon. The reduction of tensions and disputes between Brazil and Argentina is a case in point. The conclusion derived from this observation is that, when managed cautiously, regional economic partnerships and agreements could assist in enhancing peace and stability in the region, thereby deepening regional integration. Peace and stability are generally regarded as preconditions for sustainable economic growth and development.

(ii) Regional integration as a political mechanism to promote national interests

The analysis on the establishment of Mercosur and SACU categorically revealed that regional organisations do not come about as an act of accident. The study demonstrated that the two organisations were formed in order to advance a political agenda. In the case of Mercosur, Brazil championed the formation of Mercosur for two primary reasons. The first reason was to try to reduce tensions with neighbouring Argentina. The concern for the reduction of tensions was also not an act of altruism but was based on the need to expand Brazil’s market in the region in an environment of relative peace and stability.
The second reason for the establishment of Mercosur lies in the domain of realpolitik or power politics. The United States of America (USA) has long regarded the region of South America as its sphere of influence both in political and economic fronts. The dominance of the USA in promoting its economic and political power in South America, partly generated Brazil’s interest to also battle to influence its neighbours one way or another. In fact, Mercosur was established as a deliberate mechanism to counterbalance the influence of the USA especially in engineering the economics of the region. A conclusion is therefore made, that regional integration is not just about fostering good neighbourliness, but also is about discouraging and rejecting foreign interests in the region.

In relation to SACU, South Africa initially established the union merely to expand its sphere of influence, in fact with imperialist interest, to annex the neighbouring countries. When the annexing of neighbouring countries did not happen, South Africa entrenched itself as the dominant regional power, taking control of the machinery of the union from formulating policies to collecting and distributing revenue to other members. South Africa’s dominance of the union, albeit, motivated by different factors, still persists. However, the introduction of democratic clauses in the 2002 Agreement introduced the dawn of a new engagement strategy within the union. Be that as it may, the union members’ absolute reliance on South Africa, coupled with their vast development challenges, make them vulnerable to the political dictations of the regional power. A conclusion derived from this is simple, as long as SACU members do not actively capacitate themselves, especially in building strong local economies, not much will change in regional power dynamics with or without region-wide democratic practices.

Furthermore, if Mercosur and SACU’s smaller members namely; Argentina, Paraguay and Uruguay, and Swaziland, Lesotho, Botswana and Namibia, do not actively rethink their domestic economic policies, regional policies and programmes would continue to reflect the interests of regional powers in Brazil and South Africa.

(iii) Regionalised anarchic global economic system
The lack of active engagements in both Mercosur and SACU to make these organisations supranational governance structures, talks to the realist theory’s argument about the absence of central government in relations between states. At this juncture, both Mercosur and SACU members implement and accede to regional agreements without any regionally set pace or timeframe. The slow progress registered in relation to the ratification of the PTA is an obvious example. Even though, member states agreed to the signing of the PTA, they still have to satisfy national legislative processes before it actually comes into effect. The negative effect of this is that it reduces the political will and vigour with which regional agreements are negotiated and signed, to simple and cheap talk.

Consequently, the objectives set out in the PTA are deferred to future generations without any certainty that they will ever be realised. For regional integration to be successful and meaningful, regional structures should be arranged differently to their global counterparts. Unlike in structures such as the World Bank and the International Monetary Fund, Non-Aligned Movement, Group of 20, to mention just a few, regional organisations should formulate, adopt and execute measurable programmes and policies. Such policies should be supervised by a regional institution with authority to punish non-compliance and to reward compliance. The point of departure should be on the collective design, formulation and harmonisation of regional policies.

In the preceding section an argument has been made for diversified leadership and cooperative regional power relations. It is difficult to envisage this occurring both in Mercosur and SACU. The reason is that smaller members of these organisations seem to be comfortable as passive partners rather than co-leaders. By co-leading regional institutions the smaller members stand to benefit more than just to gain access into the markets of the bigger members. Some of these benefits are: the enhancement of collective benefits such as political and economic stability; improving legitimacy of regional institutions and processes; sense of belonging and inclusion; creation of a common regional identity.

For the above to happen, it has to be the smaller countries that naturally take interest in regional processes and this cannot take place through persuasion or coercion.
Furthermore, the interest should not only be based on what these countries stand to benefit from regional cooperation, but also on what they can offer. As an example, Lesotho as one of the small countries in SACU and Southern Africa has enormous potential to turn its fortunes around if it were to leverage on its natural water resources to transform its economic production into various products, such as drinks, sources of energy and so forth. Deliberate and concrete action could only help build stronger and effective regional institutions thereby consolidating the integration process.

6.4 Areas for further research

The eventual implementation of the Mercosur and SACU preferential trade agreement will present opportunities to investigate the following issues:

(i) The economic impact of the PTA in the welfare of the people in the Mercosur and SACU member countries;

(ii) The relationship between trade and its contribution or lack thereof, in industrialisation and production capacity of SACU and Mercosur countries. In other words, the contribution of the PTA in the economic growth of the member countries;

(iii) The nature and scope of participation of Mercosur and SACU countries in consolidating inter-regional cooperation and integration;

(iv) The contribution of the PTA in reducing or exacerbating economic inequalities within Mercosur and SACU as regional formations; and

(v) Whether or not participation in the implementation of the activities emanating from the PTA will be extended to civil society.
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