

Trade Secrets **Global trade**

How Uruguay's trade talks with China threaten Mercosur

A pact between Montevideo and Beijing would have broader consequences for Latin America



Uruguay's president Luis Lacalle Pou, centre, is hoping the findings of a feasibility study will show there is room for a trade deal between his country and China © AFP via Getty Images

Lucinda Elliott YESTERDAY

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Seasons greetings from the southern hemisphere summer, where amid the pandemic the small South American nation of Uruguay has been hard at work hammering out a free trade deal with China.

Beijing is Uruguay's main buyer, accounting for a third of all exports. Driving down the streets of the capital, Montevideo, you're more likely to spot a Chinese-made BYD than a Mercedes-Benz. Meat, grains and wool are the main goods shipped east, in exchange for cars, chemicals and industrial machinery. Uruguayan exporters have been keen to broker the sort of deal New Zealand has with the world's second-largest economy, gaining preferential access to the Chinese market as a quality food supplier. Demand for superior cuts of Uruguayan beef doubled year on year in 2019, ahead of the pandemic. Bilateral trade between the two nations reached \$2.9bn last year, 16 times greater than in 2001, when China joined the World Trade Organization.

Today's main piece delves into the relationship and charts the story of Montevideo's bid to cement its burgeoning relationship with Beijing. We also ask what the broader

The regional impact of a Uruguay-China treaty

As Christmas gifts go, it's an unusual choice. But we're pretty sure what Luis Lacalle Pou, Uruguay's conservative president, is hoping for this year is that the findings of a feasibility study show there is room for a trade deal between his country and China.

In September, officials in Beijing and Montevideo began work on a new feasibility study for such a treaty, the findings of which are expected to be announced in time for a traditional Uruguayan Christmas barbecue in late December. "Uruguay is in a hurry," Lacalle Pou said of the talks on September 8. "If the world has shrunk and is closer than ever," our country as an agriculture-based economy "is going to go out into the world, and open up".

Should the results be positive, the next phase would be the formal drafting of a free trade agreement by representatives from Beijing and Montevideo.

The trouble for Uruguay is its overbearing *hermanos*, or brothers, who are getting in the way. Together with Argentina, Brazil and Paraguay, Uruguay makes up the Mercosur alliance, a protectionist free trade zone that experts have described as the "[least effective](#)" of its kind anywhere in the world, both in terms of trade among its members and with external partners.

Tariffs on Mercosur exports to non-members can be as high as 35 per cent. There are no customs duties between members, with the exceptions of sugar and cars. Under the [Treaty of Asunción](#) the four countries hoped to form a common market similar to that of the EU, allowing people to travel freely and agreeing to the "free movement of goods, services, and factors of production between countries". Mercosur even [considered introducing](#) a common currency at one stage. No member is allowed to negotiate preferential agreements with third countries. Changing the rule for Uruguay would therefore mean transforming the group from a customs union into a free-trade zone.

[Marcelo Elizondo](#), a specialist in foreign trade from Argentina, argues Mercosur has no consensus on its international strategy. Total exports to other countries in relation to gross domestic product have fallen to the lowest levels of any comparable

Ahead of a presidential summit on December 16, the other Mercosur members led by Brazil have proposed lowering the common external tariff by [3.5 per cent](#), regarded as a sign of detente. Calling on Montevideo “to reconsider” negotiations outside the bloc and insisting that any discussions concerning China will be removed from this month’s agenda. Uruguay has clearly rattled the ailing alliance.

Given the last minute changes to what will be discussed, “December’s meeting is a huge unknown,” Ignacio Bartesaghi, international relations professor at Uruguay’s Catholic University told the Financial Times. “The best outcome would be that Uruguay accepts the tariff lowering, and Mercosur recognises our commercial aspirations with China,” he said.

Brazil, Bartesaghi explained, had been particularly supportive of Uruguay’s ambitions. “Brazil sees the country as a tool to change the broader structure of Mercosur, for its own benefit,” he said.

The country has other options. There could be a Uru-exit from Mercosur, or it could use the December discussions as a springboard to trigger a real discussion about restructuring the alliance.

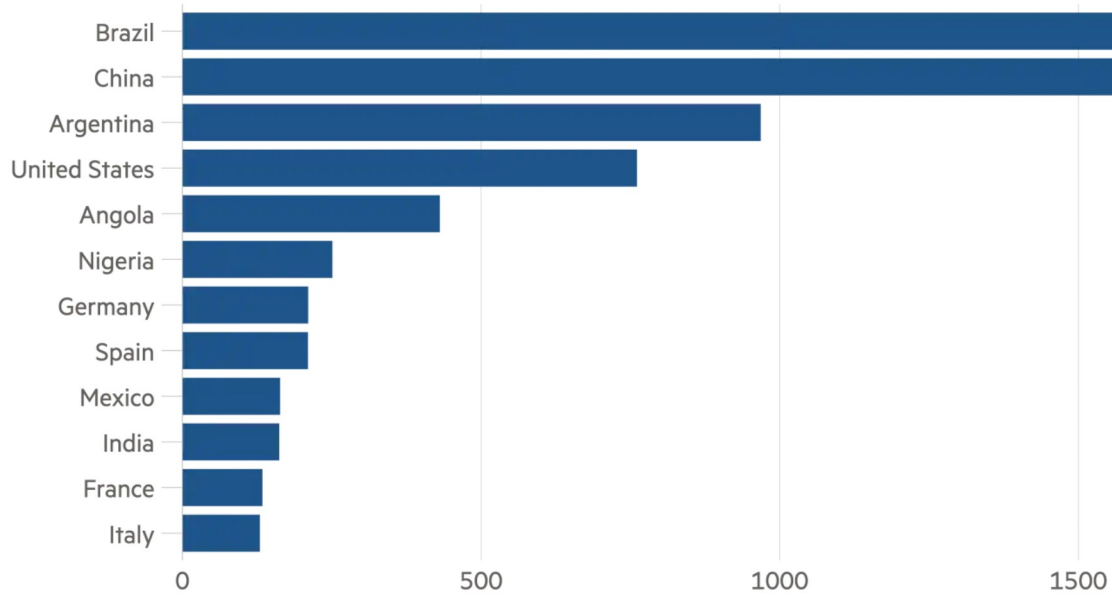
However, Buenos Aires is a stumbling block. Successive Argentine governments have shunned calls for the alliance to modernise and the latest one issued a fierce ultimatum earlier this year. “They can strike a bilateral agreement with China outside of Mercosur, or stay in Mercosur,” minister of productive development Matías Kulfas [said in September](#) on news of the Chinese talks.

In October, foreign minister Santiago Cafiero told the Financial Times in Buenos Aires that the so-called Uruguay issue had been dealt with. He was dismissive of the idea that their neighbour could present initial findings of a feasibility study by year-end: “These are long, drawn-out processes” Cafiero said, and that he had travelled to Brasília to calm any speculation of a deal and find a “necessary consensus” for tariff reductions.

only Brazil remains a key market for goods, with Argentina and Paraguay representing less than 8 per cent of total exports combined in 2019, and fewer than 11 per cent of imports (there are more recent figures, but there has been a lot of pandemic-related distortions in 2020 and 2021).

Many of Uruguay's biggest trading partners lie beyond the Americas

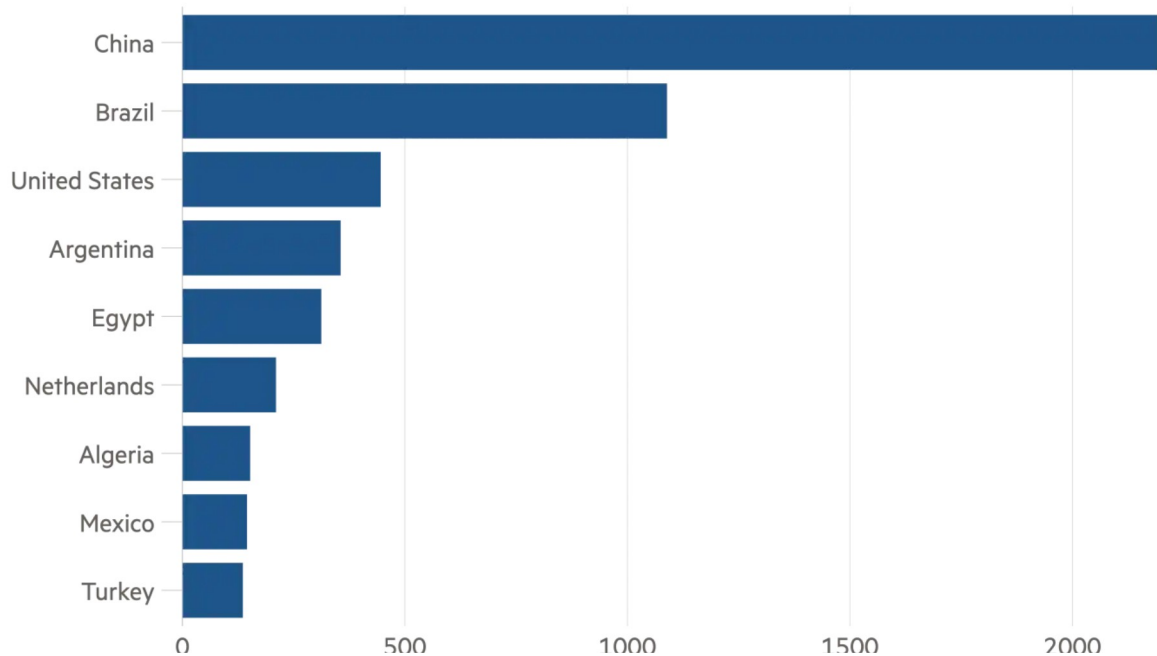
Imports (\$m)



Source: Sistema de Información Estadística © FT

Exports (\$m)

■ 2019



As for China, one has to admire its tactics. Going after the most socially and economically stable country in the region could potentially trigger free trade negotiations with the entire bloc. As people in this football mad nation would put it, that's [un golazo](#). Quite the Christmas present for Beijing too.

Trade links

While inventories for some **chips** are building up, **semiconductor shortages** [could remain](#) a feature of the car industry for years to come.

VoxEU.org has an [interesting read](#) on how **import competition**, notably from **China**, is affecting **Indian manufacturing**.

When the Regional Comprehensive Economic Partnership, or **RCEP**, pact comes into force in February, it will be the first trade agreement between **Japan** and **South Korea**, potentially boosting the share of tariff-free traded goods from 19 per cent to 92 per cent, [according to Nikkei](#) (\$).

Former deputy US trade representative **Wendy Cutler** [writes in Nikkei Asia](#) (\$) of the threat to the global trading system posed by coercive practices such as arbitrary anti-dumping duties, customs processing delays, and government-organised boycotts.
Claire Jones and Francesca Regalado

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