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## **Argentina leading the way for Mercosur trade association expansion**

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For a long time, Argentina blocked expansion of the South American free trade association. But the country now has a new president who is intent on pushing free trade. Brazil, however, is likely to step on the brakes.

Free trade among lone wolves? It doesn't just sound difficult, it is! The "Common Market of the South," or Mercosur, was founded 24 years ago in Asuncion by Argentina, Brazil, Paraguay, and Uruguay. It was meant to reduce tariffs and subsidies, and do away with - or at least coordinate - trade quotas and other trade barriers.

But its record is spotty. Until now, the governments have only managed to punch small holes in the self-erected trade barriers. Even within the association's circles, it seems that there are more exceptions than rules. Foreign trade agreements with third parties are the absolute exception, mainly because no Mercosur member may make such an agreement without the others.

### **Revitalization?**

Now, the presidents of the four founding member states are meeting once again in the capital of Paraguay. Hope is growing that Mercosur will finally prove that it's strong enough to live up to its original goals. There are many positive signs: Venezuelan President Nicolas Maduro , a vocal anti-capitalist, has not yet confirmed his attendance. His country joined the alliance in 2006, without having ever ratified any trade agreements.

Paraguay and Uruguay have long been pushing for Mercosur to open itself up toward the industrialized world, in particular the European Union. And Argentina, which has long stood in the way of its partners' attempts at liberalization, has a new leader.

### **Argentina, the new workhorse**

Mauricio Macri wants to lead Argentina back into the international community after the three Kirchner governments that led to its isolation since 2003. A stronger Mercosur would help: It's not just about relationships within the alliance, but also about foreign trade with other economic zones. Under Cristina Kirchner, Argentina repeatedly slowed negotiations with the EU.

"All eyes are on Macri," said Juan Carlos Hidalgo, Latin America expert at the Washington-based Cato Institute. "He's already shown an enormous willingness to reform." Macri has been sworn in for a week, and has already lifted currency controls pegging the peso to the US dollar, and released concrete plans to lower export tariffs on agricultural and industrial goods.

Even before he took office on December 12, he traveled to Brasilia to talk with President Dilma Rousseff about improving economic ties. "When Brazil does better, then so does Argentina," Macri said.

### **Wavering heavyweight**

That's only logical. All protectionist measures aside, Brazil is Argentina's biggest trade partner. The only problem is that Brazil is not doing particularly well. Statistics show that South America's largest economy has shrunk by more than 3.5 percent in 2015. Although Rousseff introduced some economic reforms shortly after her re-election at the end of 2014, these did not go over well with her interventionist Workers' Party. Rousseff needs the approval of her party now more than ever. For months, her government has been embroiled in a cross-party corruption scandal, resulting in impeachment proceedings against Rousseff. She needs every vote in parliament she can get in order to survive.

That's why Cato expert Hidalgo thinks it's doubtful that she will push for a trade agreement with the EU, opting instead to work on strengthening support from within her party.

### **Doubtful progress**

Martin Häusling, a member of the EU parliamentary committee on Latin America for the German Green Party, does not believe there will be any rapid progress in negotiations between the EU and Mercosur. Aside from Rousseff's internal political weakness, there are other factors, he says, which speak against it.

"There is no societal consensus for this, neither in Europe, nor in the Mercosur countries," he said. It's proved to be an extremely polarizing issue in Latin America, and in Europe, too, people tend to regard free trade agreements with skepticism.

Häusling said he would be happy if the current trade barriers remained in place. Were this to change, he fears a massive influx of genetically modified soya beans on the European market. "In addition, such an agreement would primarily benefit large-scale agricultural and industrial structures," said Häusling, adding that the benefit for the majority of the population is questionable.

Hidalgo of the Cato Institute, however, emphasized the economic benefits associated with lower import and export costs: "Greater exchange of goods and services, cheaper imports, but also more legal security for investors, not to mention economic growth on both sides of the Atlantic."