



As Chávez takes a seat at Mercosur, what's a Canadian trade minister to do?

By **BJ Siekierski** | Aug 2, 2012 5:31 am

With Venezuela officially joining Mercosur earlier this week, the already-bad odds of the Harper government completing a trade agreement with the South American bloc have surely deteriorated – but experts disagree on how that should impact Canada's trade relations with the continent's biggest economy — Brazil.

“Mercosur has lost its purpose, which was to be a free trade area – a common market. Now with the incorporation of Venezuela, which is not even adopting the common tariff of Mercosur ... it no longer holds the ideal of being a free trade bloc,” says Juan Carlos Hidalgo, a Latin America policy analyst at the CATO Institute.

Up until recently, Paraguayan objections were keeping the Hugo Chávez-led Venezuelan government out of the bloc that also includes Argentina, Brazil and Uruguay.

But with the contentious impeachment of Paraguayan president Fernando Lugo leading to Paraguay's temporary suspension, the door suddenly opened for Venezuela.

That addition has many, including Hidalgo, doubting Brazil's economic leadership, but buoyed by the progress of a nascent partnership between Peru, Chile, Mexico, and Colombia. The Pacific Alliance, as it's known, has big aspirations.

“This is an alliance that will go far beyond free trade, because it seeks an integration that allows the free flow of goods, services,

investments and people,” Chilean president Sebastian Piñera said in an interview with the *Miami Herald* last June.

Since all four countries involved already have free trade agreements with each other, they’re looking to take on bigger projects, such as a joint stock exchange, the work on which has already started.

According to Hidalgo, therein lies a big opportunity for the Harper government.

Instead of following Europe’s lead and pursuing an agreement with Brazil and company (the EU has been at it since 1999, after all), why not engage further with the four Pacific Alliance countries with which Canada already *a/so* has existing free trade agreements?

“I’m actually a big believer that ... what we could have, actually, is Canada leading the way engaging these countries in order to harmonize all these free trade agreements into a single one, and actually creating a Free Trade Area of the Americas of the willing,” he said.

“Brazil, by far the largest economy in the region, has made it clear that they’re not interested in pursuing free trade deals like the ones that the Pacific economies have pursued, and they’re going to bet everything on Mercosur, even though Mercosur is increasingly becoming more protectionist.”

For Jorge Heine, formerly a minister in the Chilean government and now a fellow at the Centre for International Governance Innovation, the Pacific Alliance is “a very interesting development,” but he dismisses any Latin American strategy that doesn’t have Brazil front and centre.

“I wouldn’t place a lot of significance on Venezuela joining Mercosur for evaluating Canada’s relationship ... or assessing trade and investment prospects. That’s important to keep in mind, because

we're talking about Brazil here – one of the emerging economies worldwide,” he said.

Heine added that countries in the Pacific Alliance are more inclined to negotiate trade deals out of necessity, because they don't have the large internal markets that Brazil and Argentina do, which helps explain why three of the four are also taking part in the Trans-Pacific Partnership negotiations.

For the Harper government, therefore, dealing with Brazil may require a more nuanced approach.

“With Mercosur, free trade agreements are not necessarily the best recipe for success. I would say you might want to look at other things to do business with them. But anybody today that ignores Brazil is making a big mistake,” Heine said.

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