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MERCOSUR's regionalisation pandemic

While the trade agreement with MERCOSUR is still being discussed in the EU, the future of the entire bloc is at stake

The free trade agreement signed between the European Union and MERCOSUR in 2019 has yet to be ratified. There are many reasons for this delay. In Europe people fear further environmental damage to the Brazilian Amazon region and are weary of competition in the agricultural sector. It seems the controversial agreement remains stuck in a political deep-freeze at least until the German and French elections.

But given the crisis currently besetting MERCOSUR – little heeded in Europe – it's questionable whether there will be a trade partner for ratification at all.

The beginning of the end

MERCOSUR, which currently includes Argentina, Brazil, Paraguay and Uruguay, is Latin America's most ambitious integration project. More than a customs union it aims at creating common institutions and joint policymaking in the areas of education and civil and workers' rights. As it clearly goes far beyond trade policy, the process has not been free from turmoil. The rivalry between giants Argentina and Brazil has time and again led to protectionist attempts to go at it alone, while minor partners Paraguay and Uruguay have often felt sidelined. The nationalist overtones are highlighted by the fact that a full customs union has not yet been achieved.

Initially, calls for reform were welcomed. Uruguay's proposal, closely coordinated with Brazil, however, went well beyond restructuring. It envisages the reduction of external tariffs to zero, and an opening up to bilateral negotiations with third parties. Basically, the abolition of two fundamental pillars of the common market. Argentina, the only centre-left country in the bloc, firmly rejected this and is trying to reconcile and to find a compromise. Paraguay is torn between solidarity with the

smaller countries, on one hand, and awareness that negotiations outside the big player alliance have little prospect of success. If this proposal is implemented MERCOSUR is done.

To fall together or to fall apart?

MERCOSUR is one of the regions hardest hit by the Covid-19 crisis. Its four member states account for 13 per cent of all Covid-19 infections worldwide, even though they make up only 3 per cent of the world population. Structural problems such as inequality, unemployment and poverty have only been exacerbated by the pandemic. Other regions have reacted to the crisis with re-regionalisation of production chains in an effort to boost autonomy and resilience. So why are Brazil and Uruguay opting for more national sovereignty?

Both are ardent devotees of neoliberal doctrines such as the lean state and 'self-regulating markets'. They regard raw materials as the region's comparative advantage. Their aim is thus to open up mining and agriculture to the biggest possible markets. This policy is causing major environmental damage. What's more, with deindustrialisation it is squandering many formal and skilled jobs for the sake of fewer, more poorly paid ones. Brazilian and Argentinian industrial organisations are accordingly worried about this initiative – at a time when the economic situation is already extremely difficult and uncertain – and emphasise the benefits of trade negotiations conducted as a bloc.

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It is understandable that Brazil's strong position allows for it to look favourably on the prospect of more room to manoeuvre in bilateral trade talks. The idea that Uruguay – with around the same population as Berlin – fancies its chances going up against China alone at the negotiating table, however, is mystifying. The call for more 'national sovereignty' to cut a dash in the world is mainly for domestic consumption. Thus far only Great Britain showed any interest when Uruguay announced its readiness for bilateral trade negotiations. Again, this is little more than an ideological gesture.

The fact is that, besides global governance, regional integration is more important than ever. This is not only because the pressing challenges of the pandemic and climate change do not stop at national borders. In a period of protectionism and political polarisation, deeper regional economic cooperation in Latin America represent the only counter-play

to a subordinate and unsustainable position in the world market. Regional value chains favour the retention and expansion of decent jobs and the prospect of economic diversification. They should at least be considered as a parallel strategy to lucrative commodity exports. Amidst a crisis of democracy, political cooperation, legitimised through parliamentary and civil society mechanisms, can serve as a buffer to anti-democratic moves.

In order to update the trade and economic agreements that came with MERCOSUR's founding 30 years ago common goals, interests, alliances – also beyond political affinities – and economic sectors have to be identified that benefit from regional trade. Starting with health policy, common policy areas should be developed and deepened within MERCOSUR, such as social and labour market policy, human rights, and research cooperation. PARLASUR, the bloc's parliament, should be tasked with this. Its mandate and competences should also be expanded. Finally, existing mechanisms for public participation should be revived and extended to foster transparency and legitimacy.

Rethinking the current course

Even before the pandemic, re-regionalisation was under way worldwide. Covid-19 has served as a catalyst. It appears, however, that Brazil and Uruguay are pursuing the Brexit model and the folklore of 'national sovereignty'. If their version of reform prevails, the region would miss out on transforming its production structures away from commodity supply towards a more sustainable development model. This would have dramatic consequences for social inclusion, employment, the environment, and democracy. Europe would lose, along with MERCOSUR, not only its sparring partner and sales market in the region, but also the possibility of setting standards for more sustainable free trade policy.

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Like Europe, Latin America is (still) one of the few democratically governed regions of the world; in other words, something to rely on in the face of global systemic rivalries. However, increasing inequality there is straining fundamental democratic convictions. Political developments such as the Bolsonaro regime are symptoms of this and not remediable merely by changing government.

The EU should thus put its free trade agreement with MERCOSUR on ice. Given current developments and crises it should instigate a

geopolitical rethink of its relations with Latin America as a medium-sized power. The original conception of the association agreement of 1995 envisaged not only trade, but also forms of cooperation, such as continuous political dialogue and technical collaboration. Reversion to that should be a key element of a post-Covid strategy that could be used to tackle multiple global crises. China is already the leading trade partner, creditor, and direct investor in large parts of Latin America. It surely intends to conclude bilateral agreements with Brazil. In this light the purely trade-policy approach of the EU-MERCOSUR agreement falls short. The MERCOSUR countries, which have looked towards Europe in their integration process, now need comprehensive support and cooperation in deepening their project.



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