

Uruguay Stuck Between Mercosur and Free Trade Agreement

By Ariela Ruiz Caro | September 26, 2006

Despite the difficulties of the U.S. Congress to pass Free Trade Agreements (FTA) due to the November congressional elections, the Bush administration remains firm in its strategy to push them in Latin America. The economic integration model imposed by these trade agreements is related to the U.S. policy that states that “free trade agreements serve the same objective as security agreements during the Cold War ... they maximize the opportunities for critical sectors and cornerstones of the U.S. economy such as technology, telecommunications, services, agriculture, and intellectual property.” The trade law, or Trade Promotion Authority (TPA) of 2002, considers that this form of economic relationship “will create new opportunities for the United States that permit it to conserve its economic, political, and military strength.”

After signing agreements with Mexico, Chile, Central America, and the Andean Community, the United States now seeks to divide Mercosur. The entry of Venezuela as a full member of the block—after its exit from the Andean Community of Nations because of disagreements over member countries’ FTA negotiations with the United States—and the southern support for the candidacy of Venezuela for a permanent seat on the United Nations Security Council, has led to the U.S. government’s increased flexibility in ceding to the repeated demands of Uruguay to negotiate an FTA.

The government of the *Frente Amplio* (Broad Front Coalition) in Uruguay has continued to promote the foreign policy of its predecessor, consisting of expanding trade relations outside Mercosur, mainly with the United States. The Mercosur initiative to create a customs agency, declared in the year 2000, established the responsibility among members to jointly negotiate all trade agreements with third parties that include tariff preferences. For Uruguay to sign an FTA with the United States, Mercosur would have to modify those rules, as did the Andean Community when it changed its common foreign policy.

To sound out this possibility, Uruguay’s and Brazil’s presidents met recently in Porto Alegre. Tabaré Vázquez says that “Brazil approved Uruguay’s negotiations with countries outside Mercosur,” although also stating that it was asked that “no trade agreement damage the heart of the integration effort,” referring to the shared external tariff.

In effect, Lula da Silva agreed so that Uruguay could seek greater access to the U.S. market, but with the condition that it not break the customs agreement, which is defined by the shared external tariff. Practically speaking, this condition impedes the signing of an FTA with the United States.

The Brazilian foreign minister considers that to be a full member of Mercosur it is necessary to form part of the customs union. Minister Amorim states that Uruguay’s membership would be incompatible with the regional block if that country were to move ahead with an FTA with the United States. Along the same lines, although not as rigid, the Argentine Foreign Minister Taiana welcomed “whatever a country can do to better itself ... as long as it doesn’t affect the regional institution.” At the same time, the Paraguayan foreign minister declared that his country’s priority is Mercosur, and discarded the possibility of a bilateral agreement with the United States as sought by Uruguay.

President Tabaré Vázquez’s problem is that he wants to sign an FTA with the United States and, at the same time, remain a full member of Mercosur. It is understood that the signing of a bilateral agreement with the United States or the European Union by countries that belong to a regional integration block weakens the process because it generates a trade deviation, creates holes in the customs union, and weakens the capacity for joint negotiations. Everything indicates that if Uruguay continues its negotiations it will have to give up its status as a full



member of Mercosur. It would then become the first country on the Atlantic Coast of South America to join the path of international integration chosen by Chile, Peru, and Colombia.

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