

Current Status and Future Perspectives of Mercosur-Singapore FTA Negotiations

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INTRODUCTION

The world is in a situation of hegemonic competition between China and the United States, with consequences in all parts of the world and in various areas such as trade and technology. Under these circumstances, Latin America found itself in a situation of irrelevance that can be observed in different indicators such as the proportion of world population, strategic weight, commercial volume, military projection, and diplomatic capacity (Schenoni and Malamud 2021).

However, despite this growing irrelevance, South America is home of Brazil and Argentina, two countries with a large size and considerable population. Both are members of the G-20, although Brazil has had more involvement with the building of a post-liberal international order as embodied in the BRICS (Brazil, Russia, India, China and South Africa) and the New Development Bank, or other initiatives mainly during the presidencies of Luiz Inácio Lula da Silva (2003-2011). Although, Argentina has recently stated that it has China's support to join the BRICS and wants to be part of this global dialogue (Reuters 2022a).

Beyond its international role, in its neighborhood both Brazil and Argentina are part of Mercosur, a regional bloc created in the 1990s that also integrates two smaller partners: Uruguay and Paraguay. One of the goals of this bloc was to achieve an adequate international insertion for the countries, even proposing to achieve a common trade policy vis-à-vis third parties (Busso and Zelicovich 2021). More recently, this bloc incorporated Venezuela (2006), although this country is currently suspended for not complying with the requirement of full democratic institutions, an essential condition established by the Ushuaia Protocol in 1998.

Throughout the time since its creation, the international insertion strategies of Mercosur members have been divergent and no external relations have been achieved that would be functional for any of the members, so Mercosur is currently going through a critical stage for its future (Busso and Zelicovich 2021). Without access to new markets, the bloc loses its attractiveness since domestic trade does not act as a driving force and the rest of the world is much more important than its neighbors (Sica and Malamud 2021).

In recent years, mainly from small partners such as Uruguay but also from some relevant actors in Brazil, there has been insistence on the need for greater openness and flexibility of the bloc as well as the reduction of the common external tariff. In this context of internal tensions and lack of major advances, in July Mercosur concluded the

negotiations of an FTA with Singapore seeking to broaden the trade horizon with Southeast Asia, according to the Paraguayan foreign minister (Swiss Info 2022). However, given the size of Singapore's economy compared to the large Mercosur countries, this agreement is more of a gesture or an aspiration than an actual trade opening.

MERCOSUR AND THE CHALLENGE OF ADVANCING IN EXTRA-ZONE AGREEMENTS

The democratic restoration in Brazil and Argentina in the mid-1980s was a turning point in relations between these neighbors. At the end of that decade, the countries made progress on an integration, cooperation, and development agreement, which was joined by Uruguay and later by Paraguay. In 1991 the Treaty of Asunción was signed, the founding agreement of Mercosur (an acronym for Southern Common Market) with the goal of creating a common market involving free circulation of goods, services and productive factors, common external tariff and trade policy and coordination of macroeconomic policies (Caetano 2011).

Its initial achievements were to become a peace zone, a democratic club and the modernization of its economies in the nineties, but after these successes, there are more challenges than achievements (Sica and Malamud 2021). In this sense, this bloc, which represents a market of more than 250 million people, celebrated its 30th anniversary last year with enormous challenges. The external agenda is mentioned as an aspect in which Mercosur has been less successful than expected, with a short-term intra-bloc coordination and agreements only with partners with which the volume of trade is scarce (Busso and Zelicovich 2021). Also, although a common external tariff was adopted in 1994, it is applied with a multiplicity of exceptions, agreed and subject to special trade negotiation regimes. Thus, there are those who consider that Mercosur never managed to create a Customs Union (and therefore a common market) as foreseen in the constitutive treaty, and currently operates as a free trade zone (Bartesaghi and Melgar 2020).

As we have mentioned, one of Mercosur's major challenges is its external relations and the lack of major agreements with other large economies. Mercosur does have certain economic complementation agreements with several countries in the region, but because of a reduced growth in world trade, a context of multilateral trade stagnation and the arrival of governments with a more neoliberal orientation, Mercosur has begun to seek greater agreements, looking for closer ties with the members of the Pacific Alliance (Chile, Colombia, Mexico and Peru) and to make progress with other partners. However, the discipline imposed by the bloc, such as joint negotiation, is counterproductive because, forced to negotiate together, the result is not to negotiate at all (Sica and Malamud 2021).

As far as agreements outside the region are concerned, the results are quite limited. One of the first extra-zone agreements signed by Mercosur was with Israel in 2009, a very small economy. That same year, a limited fixed-preference agreement with India came into force. More recently, fixed preference agreements were signed with the Southern African Customs Union (SACU) (2006) and a free trade agreement is in place with Egypt (2017). Negotiations with EFTA (Iceland, Norway, Liechtenstein and

Switzerland) were concluded in 2019 but are not yet in force. And negotiations are also underway with Lebanon and with Canada although no huge progress has been made.

Figure 1. Network of MERCOSUR trade agreements

Country	Type of agreement
Bolivia	Economic Complementarity Agreement
Chile	Economic Complementarity Agreement
Colombia	Economic Complementarity Agreement
Cuba	Economic Partial Complementarity Agreement
Ecuador	Economic Partial Complementarity Agreement
Egipto	Free Trade Agreement
India	Preferential Trade Agreement
Israel	Free Trade Agreement
México	Economic Complementarity Agreement
Perú	Economic Partial Complementarity Agreement
SACU	Preferential Trade Agreement

Source: Mercosur - <https://www.mercosur.int/>

The negotiations for a Free Trade Agreement with the European Union are a true representation of the situation of Mercosur and its external relations due to the difficulties for signature and ratification, which is still uncertain (Schenoni and Malamud 2021). Both blocs have been in talks for about two decades and although the agreement has been signed, it is in the process of legal review. Although in this case the obstacle seems to be on the European side. Lula, one of Brazil's presidential candidates and most likely to win, said that if elected in October he would call on the European Union to improve the terms of the agreement (Reuters 2022b). It remains to be seen whether it will be possible to unblock the environmental aspect targeted by the European Union or whether a possible Lula government will mean greater difficulties for the agreement.

Uruguay, one of the smaller partners in Mercosur, has been one of the members most outspoken in calling for flexibility. Also, in recent times, Brazil has also sought certain changes, such as a lowering of the common external tariff, which was achieved at the last summit held in July (Swiss Info 2022). Nevertheless, the countries are still far from developing their potential and defining a common strategic relationship, so each one is playing its own game (Sica and Malamud 2021).

AGREEMENT WITH SINGAPORE: THE GATEWAY TO ASEAN?

In a context of greater importance of East Asia, it is necessary to observe the links of Mercosur with one of the most dynamic regions, from the demographic to the economic point of view. In the context of the signing of mega-agreements in the Asia Pacific (CPTPP and RCEP), the relationship of the bloc with this region of the world is insignificant. Although bilaterally, both China and several Southeast Asian countries are increasingly relevant in terms of trade in goods with the region. As can be seen in the following graphs, China is a relevant partner both in terms of imports and exports for Brazil,

Argentina and Uruguay. Let us remember that Paraguay still maintains relations with Taiwan. However, other countries in the Asia Pacific region are important, clearly Japan and South Korea are relevant partners for Brazil, while for Argentina several Southeast Asian countries are important: Vietnam, Indonesia and Thailand.

Figure 2. Exports from Mercosur countries in 2021

Brazil		Argentina		Uruguay		Paraguay	
Main Partner	Value (USD thousand)	Main Partner	Value (USD thousand)	Main Partner	Value (USD thousand)	Main Partner	Value (USD thousand)
China	87,907,888	Brazil	11,761,549	China	2,576,656	Brasil	3,553,810
USA	31,336,286	China	6,154,212	Brazil	1,742,639	Argentina	2,752,067
Argentina	11,878,463	USA	4,991,829	USA	1,189,159	Chile	989,298
Netherlands	9,316,020	India	4,293,273	Argentina	545,403	Russia	702,659
Chile	7,018,693	Chile	4,176,196	Netherlands	463,574	USA	216,252
Singapore	5,820,714	Vietnam	3,220,919	Algeria	234,491	India	212,754
R. Korea	5,670,845	Netherlands	2,984,086	Mexico	190,876	Uruguay	171,429
Mexico	5,560,487	Peru	1,995,216	Turkiye	144,344	Peru	170,086
Japan	5,539,500	Indonesia	1,862,980	Egypt	142,703	Taiwan	158,01
Spain	5,433,174	Spain	1,846,778	Paraguay	141,962	Israel	157,115
Total	280,814,577	Total	77,838,728	Total	9,507,423	Total	10,547,296

Source: Trade Map (ITC)

Figure 3. Imports of Mercosur countries in 2021

Brazil		Argentina		Uruguay		Paraguay	
Main Partner	Value (USD thousand)	Main Partner	Value (USD thousand)	Main Partner	Value (USD thousand)	Main Partner	Value (USD thousand)
China	47,650,946	China	13,525,039	Brazil	10,320,440	Brazil	3,314,878
USA	39,692,465	Brazil	12,442,342	China	2,059,988	Argentina	2,518,949
Argentina	11,948,896	USA	5,922,119	Argentina	1,997,322	China	2,308,364
Germany	11,346,499	Paraguay	2,914,633	USA	1,310,018	USA	1,968,581
India	6,728,421	Germany	2,527,152	Nigeria	929,694	Uruguay	387,459
Russia	5,698,759	Thailand	1,553,260	Angola	409,665	Chile	355,659
Italy	5,490,117	Mexico	1,403,147	Germany	292,943	Germany	275,394
Japan	5,145,679	India	1,393,779	Spain	269,898	India	268,379
R. Korea	5,108,169	Italy	1,312,448	Mexico	224,126	R. Korea	208,337
France	4,819,321	Vietnam	1,184,386	India	212,593	Hong Kong	149,66
Total	219,408,049	Total	63,183,753	Total	10,320,440	Total	13,559,729

Source: Trade Map (ITC)

As far as Mercosur as a bloc is concerned, there are currently no agreements signed with East Asian countries. With South Korea, negotiations started in May 2018, becoming the first country in that region to negotiate with Mercosur. Korea has great potential due to complementarity, although there is resistance from the Korean agricultural and

Mercosur manufacturing sectors (Gregory et al. 2021). This has meant that negotiations have not made much progress.

Singapore was the second country with which negotiations began in April 2019 and several rounds of negotiations were held covering market access for goods, sanitary and phytosanitary measures, trade in services, investment, and others. As expected, of the ongoing Mercosur negotiations, this was one of the least complex and easiest to resolve. In terms of economic importance, the bloc's exports in 2021 reached almost US\$ 5 billion, with more than 90% of them coming from Brazil. Meanwhile, imports barely exceeded US\$ 1 billion, and the pattern is similar, with Brazil accounting for almost 90% of imports from Singapore. Among Mercosur's main exports to Singapore are poultry products, ferroalloys, pork, beef and iron ores, while imports include insecticides, integrated circuits, medicines and ships (Swiss Info 2022).

Figure 4. Trade with Singapore in 2021

Trade	Brasil	Argentina	Uruguay	Paraguay
Exports	5820714	81403	11389	15614
Imports	842712	14012	9476	23477
Total	6663426	95415	20865	39091

Source: Trade Map (ITC)

During the Mercosur Summit in Asuncion, under the Pro Tempore presidency of Paraguay, the FTA negotiation process between Mercosur and Singapore concluded after six rounds (MERCOSUR 2022). According to official sources, the parties (Mercosur and Singapore) will now initiate the legal review process of the agreement for its signature and entry into force (Mercosur 2022). If it enters effect, it will be the first Mercosur agreement with a Southeast Asian country.

The question that emerges is what Mercosur's interest in a market such as Singapore, which is a regional hub but which does not have high tariff barriers to entry. According to the academic Pose, several chapters were negotiated that go beyond trade in goods and have to do with other non-tariff barriers (En Perspectiva 2022). In what has been scarcely published so far¹, issues of rules of origin, investments, e-commerce, government procurement and services, among other chapters, were negotiated. It should be noted that Brazil has been the main driving force behind the negotiations, as has been the case with other efforts to open external trade in recent years. In the specific case of the negotiation with Singapore, the country coordinating the negotiation was Paraguay, which also strongly promoted the negotiations, perhaps because of its interest in attracting investment from China through Singapore (Bartesaghi 2022), but also to demonstrate its negotiating capacity to bring these rounds of negotiations to a successful conclusion.

In summary, it is necessary to differentiate the real impact that the agreement may have from the symbolic impact of opening the door to Southeast Asia and being a breath of

¹ Official information of the Mercosur – Singapore agreement by the Brazilian government: <https://www.gov.br/siscomex/pt-br/acordos-comerciais/pdfs/resumo-informativo-por>

fresh air to close some of the existing negotiations (Bartesaghi 2022). Therefore, the interesting thing to follow up on the agreement with Singapore is not so much the signing of this treaty but the possible flexibilization and the initiation of other treaties with, for example, ASEAN, which is relevant for Mercosur because it is a market with more than 600 million inhabitants. In other words, a FTA with Singapore is a gateway for ASEAN and also sends a message that Mercosur can sign agreements. It was also a possibility to exercise the negotiating muscle on issues that usually include the latest generation agreements such as those signed by Singapore (CPTPP for example).

In addition, this FTA must also be understood in a context of increased pressure from small partners such as Uruguay, which in recent weeks announced the conclusion of a feasibility study for a FTA with China and is preparing to communicate the stages of the negotiations. Although this country is willing to move forward alone, it also expects other members of the bloc to join the talks to strengthen the negotiating table. Besides that not all members agree that an FTA with China is a good idea, so a Mercosur-China negotiation does not seem feasible.

In conclusion, this agreement with Singapore is a step towards an agenda with Asia Pacific that could continue with the start of negotiations with Indonesia and even with Vietnam after exploratory meetings that have been conducted. Although it remains to be seen whether there will be further progress in this agenda given the elections in Brazil and how the Fernández government positions itself towards these possible negotiations. So, this agreement with Singapore should be seen as a signal to the outside world that Mercosur is still negotiating agreements. But also, towards the domestic politics of certain countries such as Brazil, in a struggle of certain groups for a greater commercial opening of Mercosur. However, despite the conclusion of the negotiations of the agreement with Singapore, this does not imply that the challenges mentioned here regarding this bloc, mainly the difficulty of negotiating as a whole, are not still present.

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