



# Analysis and foresight of the European Union-Mercosur Association Agreement

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## Abstract

After a negotiation that has been ongoing for more than two decades, the “agreement in principle” between the European Union and Mercosur regarding the trade pillar, announced in June 2019, has not been confirmed. Moreover, in the current context, the perspectives that are outlined in both blocks are not auspicious, for various reasons that are analyzed.

In this context, the text will analyze the following points: i) in the absence of a specific Treaty in progress of application, it informs about the negotiations of the trade pillar, its current status, the contents of the principle of agreement signed in 2019, the possibilities of closure and ratification by the two parties and the main expected impacts; ii) the potential implications of this agreement for both the European Union and Mercosur, in particular with regard to its foreseeable consequences for the strategic autonomy of both regions and for the strengthening of multilateralism at present; and iii) the expected impacts of the COVID-19 pandemic and the eventual contribution of this Association Agreement in the new scenarios. The text closes with a brief overview.

## Keywords

Mercosur, European Union, regionalism, multilateralism, international trade.

## Resumen

Luego de una negociación que ya lleva más de dos décadas, el “acuerdo en principio” entre la Unión Europea y el Mercosur referido al pilar comercial, anunciado en junio de 2019, no ha terminado de confirmarse. Más aún, en el contexto actual, las perspectivas que se perfilan en ambos bloques, por diversos motivos que se analizan, no resultan auspiciosas.

En ese marco, en el texto que sigue se analizan los siguientes puntos: i) a falta de un tratado específico en curso de aplicación, se informa sobre las negociaciones del pilar comercial, su estado actual, los contenidos del principio de acuerdo firmado en 2019, las posibilidades de cierre y ratificación por las dos partes y los principales impactos esperados; ii) las potenciales implicaciones de este acuerdo tanto para la Unión Europea como para el Mercosur, en especial en lo atinente a sus consecuencias previsibles en la autonomía estratégica de ambas regiones así como en el fortalecimiento del multilateralismo en la actualidad; y iii) los impactos previstos por la pandemia de la COVID-19 y la eventual contribución de este Acuerdo de Asociación en los nuevos escenarios. El texto se cierra con un breve balance general.

## Palabras clave

Mercosur, Unión Europea, regionalismo, multilateralismo, comercio internacional.

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## 1. Introduction<sup>1</sup>

The possibilities of an Association Agreement between the European Union and Mercosur are at a decisive moment. After a negotiation that has been going on for more than 20 years, in June 2019 an “agreement in principle” referring to the commercial pillar was announced. To this was added the negotiation regarding the political and cooperation aspects, agreed a little more than a year later, in July 2020, whose contents are not yet public knowledge. At the present time, as will be seen in detail in the text, the closure and ratification of the June 2019 agreement are in a situation of stagnation.

To this situation, at the last moment and with unforeseen virulence as well as unforeseeable consequences, the Russian invasion of Ukraine, which began on 24<sup>th</sup> February 2022, has been added as a contextual factor<sup>2</sup>. It is not possible to include in this document specific and consistent considerations regarding the impact of this ongoing process on the negotiation of the European Union-Mercosur Association Agreement. We will only record the event, which highlights, among other things, the relevance of the presence of Russia and other extra-zone powers (particularly China) in Latin America, with its multiple consequences in a wide range of fields. Similarly, the concluding section will briefly outline some of the information and speculation that has emerged at the international level, which tends to develop perspectives of analysis (not always coinciding) in relation to the more or less direct impacts that can be foreseen between the two processes.

In this context, and from this last point of view, the following text analyses the following points: i) in the absence of a specific agreement in the process of being implemented, it reports on the negotiations of the trade pillar, its current status, the contents of the principle of agreement signed in 2019, the possibilities of closure and ratification by the two parties and the main effects expected; ii) the potential implications of this agreement for both the European Union and Mercosur, especially with regard to its foreseeable consequences on the strategic autonomy of both regions and the strengthening of multilateralism in the current context, and iii) the expected impacts of the COVID-19 pandemic and the possible contribution of this Association Agreement in the new scenarios.

## 2. Evolution of the negotiations, their prospects and expected effects of an agreement

### 2.1. A long and complex negotiation (with an open end)

Negotiations for the establishment of an association agreement between the European Union and Mercosur have been going on for more than twenty years. This shows both the interest of both blocs to reach an agreement that governs their economic, commercial and political exchanges, as well as the great obstacles that exist to reach it. The first records of the negotiations date back to 1995, when both blocs agreed to conclude an Interregional Framework Agreement for Cooperation, in what was the first decision of Mercosur as a subject of International Law. The fact that Mercosur’s privileged partner for its first agreement of this nature was the European Union was not accidental, but the

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<sup>1</sup> The author is especially grateful for the collaboration for the elaboration of this text to the doctoral student Nicolás Pose.

<sup>2</sup> In contexts that combine a multiplicity of analyses with an essayistic or journalistic profile, the Working Paper by Sanahuja, Stefanoni and Francisco Verdes-Montenegro (2022) is particularly recommendable.

consequence of the fact that Mercosur's very conception was inspired by the European integration model (Bizzozero, 2008).

The establishment of *interregional* relations—based on a logic of coalition relationship, as foreseen in the 1995 Framework Agreement—contributed to the promotion of the European Union's integration model, thus enhancing its legitimacy and projection as an international actor (Sanahuja, 2007). For all this, in terms of identity, it can be said that the European Union and Mercosur share defining features. This is also not surprising, if one takes into account the historical influence of Western European powers in the Southern Cone of Latin America.

The elements outlined would point to expecting a facilitation of political dialogue and cooperation, as well as the establishment of strong trade and investment links, which in fact exist between the two blocs. However, despite all these positive conditions, the launch of negotiations for the formation of an interregional association agreement, which took place in 1999 under the provisions of the 1995 Framework Agreement, was not a proactive initiative. On the contrary, with the perspective of time, this launch should be understood as a reaction to the hemispheric relations between the United States and Latin American countries. In the mid-1990s, the United States was making progress in the region with its proposed Free Trade Area of the Americas (FTAA), which sought to form a preferential area of hemispheric trade inspired by the NAFTA model. These advances generated a reactive response in the European Union, concerned about the potential loss of both economic space and political relations in Latin America. In this way, the European bloc sought to launch trade negotiations within the framework of a complex triangular logic in the Atlantic, which in turn interacted with multilateral trade negotiations, generating an intricate geopolitical and geoeconomic panorama (Bouzas, 1996; Grandi, 2000).

Since the launch of the negotiations, according to Sanahuja and Rodríguez (2019), four phases can be identified, which allow the organisation of short-term developments. That said, as Rozemberg (2019) points out, the essence of the agreement, with its pros and cons, has been the same in the long negotiation. The first phase, which took place between 2000 and 2004, was based on three principles, agreed in April 2000: comprehensive negotiations and balanced results; non-exclusion of any sector, with consideration of sensitivities in products and services in accordance with the rules of the World Trade Organization (WTO), and the principle of the single commitment, under the same logic that was applied in the Uruguay Round of the GATT (Makuc, Rozemberg and Duhalde, 2015). On this basis, three working groups were established: one devoted to trade in goods, a second to trade in services, and a third to the issue of government procurement, competition policies and dispute settlement.

Sanahuja and Rodríguez (2019) highlight that, on the one hand, the European proposal to negotiate some of the so-called “Singapore issues”—such as government purchases and competition policies—was a first turning point in the negotiations, given the reluctance of the Mercosur countries to assume greater commitments than those adopted after the formation of the WTO. On the other hand, however, they emphasize that the main difficulties in reaching agreements were registered in the traditional issues of trade, that is, in the offers in the field of goods. The literature agrees that these difficulties derived from the nature of trade between the two blocs, characterised by the prevalence of inter-industrial trade, based on the different endowment of productive factors, whose liberalisation entailed great distributive implications (Rogowski, 1989; Milner and Judkins, 2004; Hiscox, 2014). In this way, the European bloc was sensitive from the beginning to an ambitious opening of its market for the import of primary products and manufactures of agricultural origin, areas in which the static comparative advantages of the Mercosur bloc lay. At the same time, the Mercosur countries, mainly Brazil and Argentina, expressed their resistance to a rapid opening of their markets for manufactures of industrial origin, where European production is more competitive.

For European agricultural producers, the threat posed by the opening negotiated with Mercosur has been based on the risk of being displaced by the competitive agriculture of South Americans, so that the countries in which their organisations have greater weight have historically been reluctant to this agreement. On the other hand, for Mercosur entrepreneurs and industrial workers, facing greater competition from European firms, with greater relative capital and technology, also generated the risk of market displacement. In turn, the strong presence of firms of European origin in Mercosur—which entered the markets of Argentina and, above all, Brazil, with a horizontal logic, of jumping tariff barriers and production for the destination market—generated the additional concern of the relocation of these firms, especially if the tariff protection structure was dismantled (Oliveira, 2014; Pose and Bizzozero, 2019; Álvarez and Zelicovich, 2020; Caetano and Pose, 2020).

To these structural elements of political economy were added other conjunctural ones. Among them, the following should be recorded: the concern of South American governments about the reduction of space for the implementation of development policies, as well as their search for an agreement that effectively recognised the different stages of development of the partners; the difficulty of Mercosur to complete the formation of its customs union, making the normative idea of a bi-regional agreement less attractive; the failure of the WTO's Cancún Ministerial Summit, at which the countries of the South expected greater discipline of the agricultural subsidies of the countries of the North; related to this, the paralysis of the FTAA initiative, which took pressure off the European Union regarding the need to move forward with Mercosur so as not to be at a competitive disadvantage with respect to the United States. Combined, these elements led to a prolonged paralysis of negotiations between the European Union and Mercosur by 2004 (Makuc *et al.*, 2015; Caetano and Pose, 2020; Sanahuja and Rodríguez, 2019).

Between 2004 and 2010, Sanahuja and Rodríguez (2019) identify a second stage that they call “mutual disinterest”. During this period, the European Union prioritised the formation of agreements with the Latin American countries of the “Pacific axis”, with a more liberal and open orientation (Briceño-Ruiz, 2013). The time of progressive governments in the Mercosur countries brought with it a regionalist orientation that has been called by some authors as “post-liberal” (Sanahuja, 2009) or “post-hegemonic” (Riggirozzi and Tussie, 2012), in which the trade integration agenda gave way to a greater focus on the political and social issues of regionalism<sup>3</sup>.

Negotiations resumed in 2010, inaugurating a third stage. However, this occurred in a different international political and economic context. Firstly, as early as 2008, with the failure of the last negotiating package attempted in Geneva, the impasse in multilateral negotiations in the WTO became clear. On the one hand, this meant that the European Union resumed the agenda of seeking preferential trade agreements, encouraging the relaunch of negotiations with Mercosur. On the other hand, the blockade of the multilateral route meant the postponement of one of the main requests of the Mercosur partners: the reduction of European subsidies to the agricultural sector (Makuc *et al.*, 2015). Secondly, it highlighted the impact of the 2008 global financial crisis, which continued to hit the developed economies of the West very hard. Meanwhile, the so-called emerging powers, particularly China, continued to expand their share of GDP, foreign direct investment and trade globally, with Mercosur as an important part of this global phenomenon. In just one decade, China's share of Mercosur exports had tripled, from less than 3% in 2000 to almost 10% in 2009. This deepened the primary export profile of the countries of the bloc, as Mercosur exports to China were already concentrated in a few commodities, such as iron ore, beef, soybeans and wood, which experienced since 2000 a sharp increase, both in their demand and in their prices.

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<sup>3</sup> This characterisation has been the subject of controversy in more recent times. For a current synthesis of the debate, see issue 257 of the journal *Nueva Sociedad*.

In turn, during the years of paralysis of the negotiations, the European Union underwent a process of expansion of its membership to the East, which meant in the first place greater sensitivities for the industrial producers of Mercosur, both for the lower labour costs in the new members, and for the incorporation of new agricultural sensitivities in the European bloc. On the other hand, Brazil and the European Union established in 2007 a strategic partnership agreement, which involved incorporating a difference at the diplomatic level between the largest member of Mercosur and the rest of its partners. All these elements converged in a greater complexity of the negotiations.

However, the shift in Brazil's position since 2013 changed the *status quo*. The Brazilian political and business elites concluded that in the new scenario Brazil was being isolated from the main negotiations and international trade flows (Thorstensen and Ferraz, 2014), so they started, with the support of Paraguay and Uruguay, to press for an agreement with the European Union. In turn, the European announcement of the end of the granting of the Generalised System of Preferences (GSP) to Mercosur countries in 2014, although it did not structurally change the incentives for the low volume of trade covered by it, did add an additional element in this line. Such a position clashed with the Argentine position, which maintained the belief that the terms proposed in the negotiation increased the asymmetries between the two blocs. However, despite these differences, Mercosur managed to put together an offer to exchange with the Europeans in 2014. At this point, it was the European Union that was reluctant to exchange. The controversies generated by the suspension of Paraguay and the entry of Venezuela acted, so the renewed agricultural sensitivities—to the rhythm of the electoral calendars of the main members of the Union—delayed the manifestation of the intention of the European Commission to advance in the negotiations.

The political changes in Argentina (2015) and Brazil (2016) meant the arrival of more liberal governments in trade matters, which implied the beginning of the last and fourth phase of the negotiation (Sanahuja and Rodríguez, 2019; Zelicovich, 2018). This culminated in the signing of the agreement in principle on 28 June 2019. According to Álvarez and Zelicovich (2020), two major variables explain the closure of negotiations in this fourth phase: a geopolitical and an economic one. To this they add a third factor, the identity, which allowed to sustain the negotiations for so many years despite the difficulties to agree.

Regarding the geopolitical variable, they highlighted the changes that the so-called globalisation crisis entailed (Sanahuja, 2019) and, relatedly, the erosion of multilateral trade institutions. These phenomena, with diverse origins, which were related to the global crisis of 2008 and the growing rejection of the impact of commercial globalisation on north-western societies, accelerated with the victory of Donald Trump in the United States in 2016. The Trump administration adopted a unilateralist orientation in the international sphere, as well as a challenge to the institutions that made up the so-called liberal international order. In this context, the European Union sought to position itself as a bastion of defence of this rules-based order, for which an agreement with Mercosur represented a strategic move.

The combination of all these factors made possible some changes in the material variable: it promoted the renunciation of both parties, although not necessarily in similar portions, to their demands for maximum, with a view to reaching a point of agreement. Thus, on the side of the European Union, although there was a continuity in the hard core of its offer, it is possible to note some modifications in other areas. For example, in defensive matters, the bloc accepted that Mercosur maintain the validity of its drawback mechanisms and special economic areas (Zelicovich, 2019), key to ensuring a minimum competitiveness of its industrial exports. On the other hand, on the offensive level, the withdrawal of some unacceptable demands for Mercosur was highlighted, such as the extension of the terms of patent protection and the protection of test data.

On the Mercosur side, even more modifications were observed, more adopted as a necessary signal of openness to the world than based on the market access gains that the agreement could bring. In this context, Mercosur accepted agricultural and agro-industrial quotas that it had historically rejected, while at the defensive level it agreed to greater coverage for its supply of goods, more flexible rules of origin in different sectors, temporary quotas during the tax relief in key sectors such as the automotive sector, as well as a greater opening of its closed government procurement systems. Combined, all these elements facilitated the conclusion of the agreement in principle. However, as will be analysed later, this did not ensure the concreteness and ratification of what was agreed.

## 2.2. Characteristics of the agreement in principle<sup>4</sup>

The agreement in principle announced in June 2019 refers to the commercial pillar. To this is added the negotiation regarding the political and cooperation pillars, agreed in July 2020, whose contents are not yet public knowledge. What follows is a brief analysis of the contents of the agreement in its commercial pillar, based on the information disseminated and the analyses carried out by specialists in this regard.

The first thing to note is that the agreement is structured in twenty chapters, which, as can be seen in Table 1, cover not only trade in goods but a wide range of disciplines, tariff and non-tariff, as well as strictly commercial aspects and others related less directly to the subject. In terms of goods, Mercosur—which has an average tariff close to 12%, double that of the European Union (LSE, 2019)—is committed to fully liberalising 91% of its tariff lines within 15 years. Following Azevedo, De Angelis, Michalczewsky and Toscani (2019), 6% would be liberalised immediately upon the entry into force of the agreement, 25% within a period of 4 to 8 years and the remaining 60% on the end of the tariff reduction schedule, with the most sensitive products located at the end of the planned term. In turn, Mercosur would apply a partial liberalisation of 0.1% of trade, through the implementation of quotas for some dairy products.

For its part, the European Union is committed to a total liberalisation of 92% of its tariffs, with the bulk of the implementation of around 85% that would enter into force from the beginning, and the rest within a maximum period of ten years. However, an additional 7%—referring to products of agricultural origin, in which are concentrated both the highest tariff peaks in the EU and a good part of Mercosur's export to this bloc—would be liberalised only partially, through the implementation of preferential quotas without tariffs or with reduced tariffs. Among the products included in this category are meats, sugar, ethanol, rice, honey, sweet corn and various dairy products (Azevedo *et al.*, 2019; Ghiotto and Echaide, 2019; LSE, 2019).

The agreed rules of origin present a wide diversity, depending on the sector being considered. Beyond this variation, it is possible to highlight some elements, such as that several of the measures adopted coincide with the European model of rules, which forces a modernisation of Mercosur regulations (Maduro, Veiga and Ríos, 2020). This refers both to the calculation mechanisms and to the issue of certification, in which the self-certification model is adopted, considered as a practice made towards trade facilitation. On the other hand, in terms of the percentages of regional content required, with respect to some sensitive sectors of Mercosur, it was possible to establish intermediate levels of demand, while others, such as machinery and auto parts, were closer to the European position in the sense of requiring less accumulation. In return, Mercosur managed to sustain, as already mentioned, the maintenance of the drawback, a regime of widespread use in the bloc for the import of productive inputs.

The agreement also establishes provisions and areas for cooperation on technical barriers to trade, and sanitary and phytosanitary measures, in order to avoid the lifting of unnecessary barriers to trade

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<sup>4</sup> This sub-section is based on Pose and Wilchinski (2021).

**TABLE 1. Contents of the trade agreement in principle between the EU and Mercosur**

| Number* | Texts of the agreement                    |
|---------|---|
| 01      | Trade in goods                            |
| 02      | Rules of origin                           |
| 03      | Trade defence                             |
| 04      | Sanitary and phytosanitary measures       |
| 05      | Technical barriers to trade               |
| 06      | Trade facilitation                        |
| 07      | Services and establishment                |
| 08      | Government procurement                    |
| 09      | Intellectual property                     |
| 10      | Competence                                |
| 11      | Subsidies                                 |
| 12      | State-owned companies                     |
| 13      | Trade and sustainable development         |
| 14      | Small and medium-sized enterprises        |
| 15      | Transparency                              |
| 16      | Regional integration clause               |
| 17      | Dispute settlement                        |
| 18      | Wine Annex                                |
| 19      | Anti-fraud clause                         |
| 20      | Balance of payments and capital movements |

\* Uruguay clarifies that “the final order of the chapters and texts may be altered as a result of the legal and institutional revision of the agreement”. Source: Uruguay (2019).

(Azevedo *et al.*, 2019). That said, the acceptance of the precautionary principle —which allows the parties to impose barriers against the unproven suspicion of damage generated by some product or process—threatens to limit market access gains, mainly for Mercosur partners, specialised in production of agricultural origin (Caetano and Pose, 2020).

On the other hand, the agreement includes a chapter on intellectual property, but unlike other North-South ACP, promoted by both the United States and the European Union (Shadlen, 2008; Gallagher, 2008; Horn, Mavroidis and Sapir, 2010), does not establish WTO-plus obligations in terms of patent extension and protection of test data (Azevedo *et al.*, 2019). And although it urges the parties to adhere to the Patent Cooperation Treaty, of which Argentina, Paraguay and Uruguay are not members, it does so under the best endeavour format, which does not generate obligations for the parties. The bulk of the action in the field of intellectual property involves the recognition of geographical denominations, an aspect forcefully negotiated by the parties and not yet closed, since, due to the strong European immigration in the Southern Cone of Latin America, different varieties identified with regions of the Viejo Continent are produced from decades in Mercosur<sup>5</sup>.

<sup>5</sup> To address this situation, the agreement introduces the so-called “grandfather clause”, which allows the already existing marketing of products with protected names to continue.

Continuing with the related disciplines, the agreement includes WTO-plus provisions on services, which grant national treatment to the counterparty's suppliers and allow greater market access in the sectors explicitly included by the partners, since they were negotiated through positive lists. In turn, it introduces specific rules for specific sectors, such as postal, courier, telecommunications and financial services, as well as general provisions in electronic commerce. On the contrary, the parties did not negotiate a chapter on investments, which are covered only as regards the provision of services through the establishment of the supplier in the destination economy (Bas, 2019; Azevedo *et al.*, 2019; Ghiotto and Echaide, 2019).

Another chapter of interest, both because it innovates and because of the hard negotiation it entailed, is that of government purchases. In this sense, both blocs agreed to guarantee access to their public procurement on a reciprocal basis, which is particularly significant for Mercosur, insofar as it is the first agreement to open up to a supplier of magnitude. The agreement partially excludes subnational entities, establishes a grace period for Mercosur of 15 years and sets a minimum floor for the inclusion in the protocol of 130,000 special drawing rights (SDRs) for purchases of goods and services, and SDR 5.5 million for public works (Azevedo *et al.*, 2019; Álvarez and Zelicovich, 2020; Maduro *et al.*, 2020).

Finally, the agreement includes other chapters that, unlike those described, do not refer to the dispute settlement mechanism. Among them is that of sustainable development, whose special sensitivity derives from the environmental objections that the settlement in Europe has deserved. Pose and Wilchinski compare the environmental provisions included in this agreement in comparison with other preferential arrangements of global reference, such as the CP-TPP, CETA and USMCA. Such a comparison is relevant, given that some European leaders have presented this arrangement as an example of environmental sustainability of trade, contrasting it with the Mercosur-European Union agreement.

As can be seen in Table 2, of the 24 dimensions selected for comparison, the EU-Mercosur agreement complies with 11, compared to 10 for CETA and the USMCA, and is surpassed only by the CP-TPP, with 15. In addition, in qualitative terms, it stands out for the link it makes with the fulfilment of the commitments assumed by each party to the Paris Agreement, which is an innovation with respect to the main preferential trade agreements of the last decade. Therefore, despite not having a binding mechanism at the level of dispute settlement, the agreement in principle between the European Union and Mercosur exceeds the level of environmental protection provided for in other agreements such as CETA, while in qualitative terms it represents a leap from its preceding ones, by explicitly linking the Paris Agreement with preferential trade between the two blocs.

In this regard, the question arises: to what extent can these provisions, as described, alter the behaviour of States in environmental matters? For sceptics, particularly around Brazil, the response has been negative. In particular, as noted, the absence of binding environmental provisions is highlighted. Beyond this aspect, two factors can be pointed out to consider. The first of these is the moderate impact of the agreement in commercial terms, particularly with regard to Mercosur's offensive interests in agricultural and agro-industrial goods. This point is relevant to the extent that a strong dependence on a market generates incentives for compliance with the hard or soft rules expected by that destination, due to the cost of potential exclusion. However, in this case, surely such incentives are not powerful enough. That said, it is also possible to imagine a second factor, acting in the opposite direction. To do this, it is necessary to incorporate that, for a good part of Mercosur agricultural and agro-industrial producers, the benefits of an agreement with the European Union do not derive mainly from greater access to markets, but from the seal of quality that supposes having the approval of one of the most demanding importers in terms of standards. Thus, even if the volumes exported are not

**TABLE 2. Environmental issues in four preferential agreements of global reference**  
**Environmental clauses or issues dealt with in trade agreements**

| Environmental clauses or issues dealt with in trade agreements    |   | EU-Mercosur | CETA | CP-TPP | USMCA* |
|---|---|-------------|------|--------|--------|
| Principles  | Principle of common but differentiated responsibilities   | X           | X    | X      | X      |
|   | Precautionary principle   | ✓           | ✓    | X      | X      |
|   | Sovereignty in determining its own environmental policies according to the priorities of the State        | ✓           | ✓    | ✓      | ✓      |
|   | Sovereignty in the execution of environmental measures  | X           | X    | ✓      | ✓      |
|   | Environmental protection as a precondition for trade or development                                       | X           | X    | X      | X      |
|   | Reference to mutual support between environment and trade or development                                  | ✓           | ✓    | ✓      | ✓      |
| Level of environmental protection                                 | It is inappropriate to encourage trade or investment by relaxing environmental measures                   | ✓           | ✓    | ✓      | ✓      |
|   | States must improve and strengthen levels of environmental protection                                     | X           | ✓    | ✓      | ✓      |
|   | Prohibition of discriminatory or unnecessary environmental measures                                       | ✓           | X    | ✓      | X      |
| Interaction of the environment with non-environmental issues      | With trade or investment policies   | ✓           | ✓    | ✓      | ✓      |
|   | With energy policies  | X           | ✓    | ✓      | X      |
|   | With tourism  | X           | X    | X      | X      |
|   | With gender policies  | X           | X    | X      | X      |
|   | With social issues  | ✓           | ✓    | ✓      | ✓      |
|   | With rural development  | X           | X    | X      | X      |
|   | With urban development  | X           | X    | ✓      | X      |
|   | With construction activities  | X           | X    | X      | X      |
|   | With agriculture  | X           | X    | X      | X      |
|   | With indigenous communities or traditional knowledge  | ✓           | X    | ✓      | ✓      |
| With human health   | X   | X           | ✓    | ✓      |        |
| Other forms of cooperation in environmental matters               | Encourage the production of environmental goods and services  | X           | X    | ✓      | X      |
|   | Encourage trade and investment in environmental goods and services  | ✓           | ✓    | ✓      | ✓      |
|   | Commitment to cooperation in the context of bilateral, regional or multilateral environmental negotiation | ✓           | ✓    | ✓      | X      |
| Commitment to the effective implementation of the Paris Agreement |   | ✓           | X    | X      | X      |

\* The parallel environmental agreement that the same countries signed in 2018 is not included in the analysis.  
Source: Pose and Wilchinski (2021), based on text of environmental chapters of the available agreements.

on a par with those destined for Asia or other regions, producers will surely have incentives to pressure their governments for high compliance with the requirements set out in the agreement. Therefore, from this logic, the agreement could modify Brazilian behaviour towards a greater concern for the environmental dimension, unlike what is maintained by sceptics in Europe.

Finally, given the description of the structure of the agreement, it is worth asking whether we are facing a traditional preferential trade agreement format—in the logic of the FTAs that proliferated between the 1990s and the early 2000s in the world—or a new format of agreement. In this sense, it is difficult to find unequivocal answers. On the one hand, the planned tariff reduction, beyond the differential deadlines in favour of Mercosur, presents a traditional logic, since it covers a percentage greater than 90% of the tariff universe. The agreement includes a safeguards regime, which although not specifically industrial, where Mercosur's greatest sensitivity resides, can be used by this sector. While on the discipline side, although WTO-plus chapters are included, there is no marked deepening of commitments in the so-called Singapore issues, since the agreement does not include an investment chapter (except in services), which avoids discussion on controversial investor-State dispute settlement systems<sup>6</sup>, nor does it introduce additional requirements in key aspects of intellectual property rights, such as patents and test data. Moreover, the preservation of certain regimes for Mercosur, such as drawback, testifies to a sign of flexibility from the European Union, at least compared to its record of agreements with the developing world.

In any case, these deviations from the classic TLC model, although they moderate some of its most controversial aspects, do not imply the presence of a new or overcoming logic. In this sense, the cooperation chapter constitutes an opportunity for the construction of a true association agreement, as promoted by Mercosur in the first negotiating stage (2000-2004). However, we still do not know the contents of such an agreement, although the public statements of the negotiators do not augur the presence of paradigmatic changes. Given the geopolitical importance of the agreement for both regions, it is pertinent to raise the possibility of innovating in this area. In Caetano and Pose (2020b), we advance five lines that can contribute in this regard: 1) greater transparency in the public circulation of information; 2) the introduction of labour and environmental clauses from a promotion perspective (with a focus on training and technology transfer); 3) the replacement of bilateral investment treaties by an interregional investment dispute settlement arrangement, providing only for access to the system for State actors; 4) additional measures for greater preservation of the space for the implementation of late development policies (such as the discussed nascent industries clause or the possibility of subsidising certain activities that promote technological catch-up in the countries of the South), and 5) the introduction of explicit mechanisms that promote technology transfers and interregional linkages with the participation of SMEs. The incorporation of these elements, plus the innovations and deviations from the classic patterns of the North-South FTAs already mentioned, would contribute in a more decisive way to sustainable development in both regions, as well as to the consolidation of a geopolitical alliance that allows both regions to navigate with better tools and capabilities the crisis of globalisation and the impact of exacerbated competition between the United States and China.

### ***2.3. Prospects for closure and ratification in Mercosur***

The agreement came at a time of deepening the weaknesses of Latin American regionalism, of which Mercosur was no exception (Caetano and Pose, 2020). Therefore, regardless of the economic aspects, its signing was a point of convergence between the countries of the bloc. The deepening of the Brazilian

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<sup>6</sup> This does not eliminate the potential use of this scheme based on the multiple bilateral investment treaties that link Argentina, Paraguay and Uruguay with different member countries of the European Union.

government's search for trade openness after the victory of Jair Bolsonaro —combined with the liberal turn that the government of Mauricio Macri represented in Argentina and added to the historic support of Paraguay and Uruguay for these negotiations— ended up generating the necessary consensus, Mercosur's decision-making mechanism par excellence, to propose an offer difficult to reject by the European counterpart.

The signing of the agreement also eased the tension facing Mercosur's external agenda. It should be noted that, despite the active search for trade agreements carried out since 2016, the bloc faced a world less prone to these arrangements than in the past (Zelicovich, 2018). Likewise, the conclusion of the negotiations acted as a balm towards the interior of the bloc, which faced an accumulation of multiple criticisms and questions. It is that despite the declarations and intentions of successive governments, Mercosur has suffered multiple problems of internal functioning. These problems have led to the frequent questioning of the bloc by governments and other actors, as well as the formulation of proposals for flexibility regarding relations with third parties. The conclusion of the agreement in principle with the European Union, in this context, was evidence in favour of the support of Mercosur and its joint action in external matters.

The first questions at the political level to the agreement arose from Argentina, within the framework of the 2019 electoral campaign, in which Mauricio Macri sought re-election. In front of the announcement of the firm, the main opposition candidate and today president, Alberto Fernández, said that this fact gave no reason to celebrate, because while the profits were not clear, the damages it would cause to industry and national labour were obvious. This positioning, added to the various clashes between the new Argentine administration and the Bolsonaro government in Brazil, ended up putting a new question mark on the future of Mercosur.

However, despite Argentina's reservations about what was signed, the truth is that, once in power, the new Argentine government chaired by Alberto Fernández has committed to continue with the legal review of what was agreed, close the political and cooperation agreement (as it happened in July 2020) and send the agreement to Parliament for consideration. Part of the explanation for this position lies in the possibility of a bilateral entry into force of the trade pillar between the European Union and each of the Mercosur partners that ratify the agreement. Following Gruber (2001), this option removed the *status quo* in the negotiation with the European Union. In the new situation, Argentina faces the need to ratify an agreement that was not among the preferences of the new government, or the more expensive alternative of not ratifying it and facing more disadvantageous competition from Europe in the Brazilian market. Also in the latter case, it would assume the challenge of uneven competition with Brazilian exports that coincide with the Argentine export basket to the European Union market. To all this should be added the fragile financial context in which the new Fernández government took office, which has implied the need to obtain support among European governments to reprogramme the external debt payment scheme. All these factors have ended up limiting the space of opposition to the arrangement. In any case, as Merke (2019) explains, this does not imply the existence of a consensus on the matter within the ruling coalition of the Frente de Todos.

Despite the Argentine acceptance, after the initial nuances, the lack of progress in Europe regarding the conclusion of the agreement has limited the unifying impact that it could generate in Mercosur. In this context, the bloc has continued to navigate between the divergences of its partners, aggravated by the COVID-19 pandemic. On the trade front, two proposals have again divided Mercosur. The first of these is to reduce the common external tariff (CET), proposed by Brazil and accompanied in principle by Paraguay and Uruguay, but resisted by Argentina, as well as by a significant portion of the Brazilian business elites themselves. To these differences was added the recent debate originated by

the Uruguayan proposal to open negotiations with third parties more flexible, to allow the individual signing of extra-area agreements in case consensus is not obtained in the bloc to move forward together. Such an initiative generates the rejection of both Argentina and Paraguay, which allege their conflict with the provisions of the Treaty of Asunción that gave rise to the bloc. In short, Mercosur is waiting for a concretion and ratification of the association agreement with the European Union in a context of marked weakness and with the persistence of uncertainties in the political conditions for its ratification.

#### ***2.4. Prospects for closure and ratification in the European Union***

For the EU, the announcement of the agreement, in principle, also had a symbolic value of relevance, in that it implied reaffirming its commitment to an international order based on the establishment of rules against US unilateralism and geoeconomic war with China. However, as highlighted by Álvarez and Zelicovich (2020), geopolitical reasons might not have the same strength to ensure its completion and ratification. As expected, after the announcement the first expressions of discontent emerged from opposing entities such as COPA-COGECA, the interest group that brings together the agricultural sectors of the European Union. In the same vein, objections arose during the following months, both for the opening of the agricultural market and for environmental reasons, from the governments of countries such as France, Ireland and Poland, where the weight of farmers' organisations is greater.

On the contrary, more surprising and indicative of a qualitative change in Europe were the expressions of the national parliaments of countries such as Austria and the Netherlands. In the first case, a vote in committee in September 2019 rejected the agreement with the support of a broad spectrum of its political system. The main arguments presented by the legislators to substantiate their refusal referred to the policy of deforestation of the Amazon for agricultural production purposes promoted by the Bolsonaro government in Brazil, to which were added concerns about animal health, consumer protection and the viability of European agriculture (BBC, 2019; Oltermann, 2019). In the case of the Netherlands, although it was an opposition initiative that had the support of a minority partner of the government, dissident on this point, the approval of the parliamentary motion against the agreement had a great impact, to the extent that the Netherlands has historically been a bastion of free trade in the European Union. Agricultural demands and environmental concerns were again the main arguments handled by opponents of the agreement (Khan and Brunsdén, 2019; Leering, 2020). The environmental concern has taken on such magnitude that even Angela Merkel, Germany's chancellor historically favourable to the agreement, raised her reservations due to the deepening deforestation of the Amazon in Brazil, following a massive climate march that took place in Berlin (DW, 2020).

Beyond these statements, it must be considered that the agreement, in the decision-making system of the European Union, has a mixed character, with matters that have been delegated to the Union and others that remain the competence of the Member States. In this sense, the trade pillar, being a delegated competence, can be applied provisionally with the approval of the European Parliament (EP) and a qualified majority of the Council of the European Union, while the political and cooperation pillars require the ratification of national parliaments and even, in some cases, regional (Merke, 2019). But even restricting the analysis to the trade pillar, it should be noted that in October 2020 the EP expressed, through the approval of a motion, that the agreement could not be ratified "in its current state" (European Parliament, 2019, par. 36).

This motion was actually an amendment—tabled by a French parliamentarian from the Renew Europe group—to a report referring to the implementation of the EU's common commercial policy during 2018, which rejects the agreement in its signed format (European Parliament, 2019). It was approved

with 345 votes, against 295 oppositions and 24 abstentions. According to Agence Europe (2020), the majority of affirmative votes came from three parliamentary groups—the Social Democrats, the Left and the Greens—joined by some French parliamentarians from two other groups, the Conservative and the Liberal. The turn of social democrats and some conservatives and liberals is significant in relation to old consensuses on European trade policy that have been going on for decades. At the same time, it is symptomatic of the changes in the preferences of European voters regarding the environmental issue, which has forced traditional parties to reevaluate their positions (Pose and Wilchinski, 2021).

Faced with this reality, the possibility of strengthening the environmental commitments included in the agreement has been raised. The objective, from the European perspective, aims to have a special impact on Brazil's environmental policy, in particular with regard to deforestation in the Amazon. However, despite the fact that both sides have shown a willingness to negotiate an additional settlement, differences persist over the characteristics it should adopt. The position of the Mercosur countries maintains that, together with the closing of the agreement, an additional declaration could be added that reaffirms the commitments of the sustainable development chapter already agreed, to communicate to European public opinion the relevance that both parties adhere to this matter. However, such an arrangement may not satisfy the most sceptical actors in the field in Europe, who are calling for the renegotiation of the agreement to include an environmental clause that directly links preferential market access to the fulfilment of specific environmental objectives, while enabling the use of the dispute settlement system for the sustainable development chapter, what is not contemplated in the agreed format<sup>7</sup>.

The obstacle, in this scenario, is that Mercosur has flatly ruled out a renegotiation or reopening. As the chief negotiator of Brazilian diplomacy pointed out:

There is no question of renegotiating or reopening the agreement. And the reason is simple: any movement in this direction would dismantle the balance package agreed, not only between blocs, but between countries that make up each bloc. And here is an additional explanation for the unsuspecting: the European Commission negotiated and spoke on behalf of the bloc, but all member countries of the European Union were permanently consulted. None of them can, now, allege that it did not know the agreed terms (Costa and Silva, 2021).

In essence, this position refers to the analysis already carried out regarding the complex balance of political economy that was necessary to reach the agreement in principle. In concrete terms, the introduction of additional environmental barriers, which impact on access to agricultural markets and, in addition, set a precedent in this regard, threatens to collapse the bases of support that the agreement raises in Mercosur. In addition, a renegotiation can open a space for the reintroduction of industrial sensitivities in the South American bloc, further complicating the equation. In this context, the ratification scenario is complex.

## **2.5. *Expected impacts***

To the extent that the agreement under analysis has not entered into force, its potential impact on trade and investment flows, as well as on other relevant variables such as output and employment, can only be estimated indirectly through projections. That said, it is necessary to keep in mind that such projections require the adoption of a set of assumptions that often do not capture the changing

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<sup>7</sup> It has even been suggested that the Framework of the European Green Deal seeks to extend this type of robust environmental protection clauses to all trade agreements that the European Union has with third parties (Giles, 2021).

economic conditions or even the characteristics of what was finally agreed. Likewise, although the most widespread tools for these analyses (computable general equilibrium models) attract some consensus when projecting the effects of tariff modifications, there is similar agreement on their inability to model those of the non-tariff chapters, which are sometimes as or more relevant than the agreed reductions. Similarly, it is recognized that, although on the tariff side models can capture static effects, they have greater difficulties in estimating dynamic effects. With these caveats, below are some of the main projections of recent literature regarding the potential impact of the agreement between Mercosur and the European Union on its trade pillar.

According to Rozemberg (2019: 3), “most of the studies carried out in recent years to evaluate the consequences of the Mercosur-EU partnership, with a variety of assumptions and models, with general or partial equilibrium approximations, show that the agreement alone will not be the cause of major impacts, neither on trade nor on the GDP of the countries”. Among the most comprehensive approaches are the two *Trade Sustainability Impact Assessments* commissioned by the European Commission, whose results were published in 2009 and 2019-2021, respectively.

The first of these, prepared by the University of Manchester (2009), found for the case of the European Union economic welfare gains of the order of 0.1%, induced by the reallocation of resources from agriculture, which would have a negative impact, to the manufacturing and services sectors, with expected gains that in turn would compensate for the losses for the first sector. In turn, it found expected negative impacts on agricultural employment, as well as mixed results in environmental matters, with improvements derived from the import of biofuels and risks associated with the stimulation of deforestation. In the case of Mercosur, the study also found positive and moderate welfare gains for the bloc’s countries, as well as a sectoral effect opposite to that expected in Europe: gains for agriculture and food processors, as well as challenges for the manufacturing sector and services. In terms of employment, the challenges in this case were identified in the potential losses in the industrial sector, as well as the growth of work under non-decent standards in the agricultural sector.

The second study, prepared by the London School of Economics (LSE, 2021), yields similar results. As shown in Table 3, based on an estimate of a scenario with a conservative agreement, by 2032 it is expected that the agreement will have contributed to an increase of 0.1% of the GDP of the European Union, as well as increases of between 0.1% and 0.5% for the Mercosur countries. Likewise, the projection expects a greater increase in exports compared to imports for Mercosur countries, unlike what is expected in the case of the European Union. On the other hand, the biggest gains in terms of welfare are projected for the European Union; at this point, for Paraguay no movement is expected, as well as for Uruguay a slight negative variation is expected, of the order of 0.1%. The LSE projections also foresee moderate gains in the real wage of workers, both among the skilled and the unskilled ones, with variations of between 0.2% and 0.4%, depending on the country and category. Finally, the table reflects a slight contribution towards the increase in inflation in the European Union, as well as a fall in consumer prices in all Mercosur countries.

A sectoral analysis of the expected bilateral effects on trade reveals a continuation with the assessment made in 2009. In specific terms, while the sectors of the European Union that expand their exports to Mercosur to a greater extent are those of industrial products and dairy products, the greatest expansion of Mercosur sales to the European market are expected in agri-food products. In aggregate, the conservative scenario of LSE (2021) expects a 52% increase in exports from the European Union to Mercosur, as well as an 11% increase in European imports from the South American bloc. This is related to the expected impacts on employment, which for Mercosur point to a fall in jobs in some manufacturing sectors, offset by the increase in jobs in agriculture and food production. In Europe, the study concludes

**TABLE 3. Expected macroeconomic results of the agreement in a conservative scenario**

| Region    | GDP % | Investments % | Imp. % | Exp. % | Wellness % | Real wage (skilled) % | Real wage (unskilled) % | Consumer prices % |
|-----------|-------|---------------|--------|--------|------------|-----------------------|-------------------------|-------------------|
| EU 28     | 0,1   | 0,4           | 0,9    | 0,4    | 6,3        | 0,2                   | 0,2                     | 0,2               |
| Brazil    | 0,2   | 0,7           | 1,3    | 4,5    | 1,4        | 0,0                   | 0,0                     | -1,5              |
| Argentina | 0,5   | 1,4           | 1,2    | 1,9    | 1,5        | 0,2                   | 0,3                     | -1,0              |
| Uruguay   | 0,2   | 0,8           | 0,4    | 0,8    | -0,1       | 0,2                   | 0,4                     | -0,6              |
| Paraguay  | 0,1   | 0,3           | 0,1    | 0,5    | 0,0        | 0,2                   | 0,3                     | -0,3              |

Source: LSE (2021: 29).

that the sectoral impact on employment patterns would be much less significant. For its part, in environmental matters, the study does not find significant expected effects in terms of greenhouse gas emissions, while identifying a potential moderate impact on deforestation, particularly in Brazil. That said, it also highlights that per capita emissions in Brazil and Paraguay are lower than those of the European Union, while those of Argentina and Uruguay are at levels similar to those of the European bloc.

To complete the review of the main studies, it remains to incorporate a recent report from the Global Development Policy Centre of Boston University (Capaldo and Omer, 2021). Its value lies in the fact that it questions and departs from the models of general equilibrium that underpin the previous analyses, considering that the assumptions used skew the results in favour of the identification of profits. These include the assumption of full employment, the absence of relative changes in the remuneration obtained by labour and capital, and the non-variation in productivity growth due to wage growth.

On the other hand, the authors work by differentiating the economic sectors into dynamic and stagnant, which allows them to observe that, if the agreement is ratified, it is possible to expect a deepening of the polarisation between both sectors in the main economies of both blocks, as well as an asymmetric impact of the agreement in favour of the stagnant sectors. As a consequence, they point out that the agreement, in the absence of powerful mechanisms to support domestic demand and technology transfer, will negatively impact on increased productivity, employment, industrialization and sustainable development. The study points to the need to mitigate the effects of the trade chapter through robust political partnership and cooperation schemes, which allow balancing economic results in a direction more favourable to the so-called dynamic sectors.

In connection to this, it is worth reflecting on the potential impacts of the agreement on intraregional trade. This is particularly important for the case of Mercosur, which on the one hand has been a privileged platform for the export of manufactures with greater value addition produced by its members, promoting a virtuous sectoral logic, but on the other hand it has long faced a systematic fall in the share of the total export baskets of the party countries. This fall is associated, in part, with the growing penetration of Asian manufactures, predominantly Chinese, which have replaced the exchange of intraregional manufacturing inputs and final goods, as Paikin and Dulcich (2017) observe

in the case of trade between Argentina and Brazil. The empirical analysis of these authors highlights, in turn, the exception that constitutes the automotive trade, which under the protection of a strong extra-area protection and intraregional regimes of managed trade, has not been dragged by the trend indicated. This finding crucially informs a sectoral reasoning, in the style of that promoted by Capaldo and Omer (2021), in that the automotive sector of Mercosur is one of the potential sectors harmed by a liberalisation of trade with the European Union. The consideration of this sector, key in terms of participation in intraregional trade in Mercosur manufactures, reinforces the conclusions made by these authors.

In return, it is possible to identify potential trends to the contrary, also derived from the agreement. In particular, a generalised finding is the absence of compliance with the rules of the game in Mercosur, as well as the non-entry into force of various intraregional instruments that could deepen the preferential trade area of this bloc, such as service agreements or government purchases within Mercosur. In this line, the agreement with the European Union can be an external disciplinarian, in the first case, as well as an inducer of ratifications of protocols in the second, which facilitate a better functioning of the intra-Mercosur free trade area. Similarly, the convergence of internal rules with those agreed at interregional level, as in the case of rules of origin (both in terms of required content and self-certification), can also act as a stimulus for greater intraregional trade flows, insofar as they reduce the requirements and costs for intra-zone trade. Naturally, all these potential impacts require robust and effective productive policies that enhance the national productive frameworks and the supply available to be exchanged under the protection of these rules.

In summary, impact studies based on general equilibrium models coincide in pointing out moderate aggregate effects of the agreement, as well as sectoral effects in line with the political economy cleavages identified in section 2.1. While the analyses based on the differentiation of dynamic and static sectors point to expected results even negative, due to the incentives generated by the agreement in favour of the latter. To counter these trends, the importance of productive policies, both national and interregional technological cooperation, is systematically emerging. But in addition to economic effects, the agreement also has the potential to generate political effects. These are addressed in the next section.

### **3. Potential implications for the external policies of both regions**

In a context of globalisation crisis and growing rivalry between the United States and China, it is worth asking about the potential contribution of the association agreement to develop foreign policies with greater margins of autonomy, as well as to diversify alliances that allow tempering the uncertainty generated by the current international system. In an attempt to address this question, this section analyses the potential of the agreement for the diversification of the external relations of the European Union and Mercosur, as well as for the concertation of both blocs and their policies in the multilateral and regional spheres.

#### ***3.1. Potential for the European Union***

The announcement of the agreement in principle reached with Mercosur, as has been seen, cannot be separated from the geopolitical context in which it took place, to which reference has already been made. In this context, the European Union visualised in the closing of the agreement with Mercosur —as well as in the fulfilment of a parallel one that it had been negotiating with Japan— the entry into force of CETA and the updating of the association agreement with Mexico, a way of claiming an open and rules-based trading system. This international economic strategy must be linked to broader

foreign policy transformations, which have been expressed, initially in a somewhat diffuse way, in the concept of strategic *autonomy*, which has been promoted for some time by the Union's institutions.

The marked reorientation of the Trump administration with respect to the US position in international affairs, in particular on its alliances in Europe and Asia, prompted the discussion and promotion of the concept referred to. For example, the various US questions about the North Atlantic Treaty Organisation, its imposition and its threat of imposing new tariff barriers in a multilateral key, as well as the approach to the challenge of China's rise from the logic of *America First*, renewed the debates in Europe on the need for a more assertive and autonomous foreign strategy. The victory of Joe Biden, who has promised a return of the United States to its traditional policy of coalitions, can temper the incentive towards the consolidation of a new European strategy. However, there are good reasons for the European Union to continue to deepen this line, as evidenced by the recent agreement on investments with China, which puts European countries in a competitive situation similar to that reached by the United States in its own bilateral agreements with the Asian giant.

In pursuit of this strategic autonomy, the strengthening of ties with Mercosur countries can play an important role. This is visible if you take the WTO case. Faced with the paralysis of the dispute settlement system, the European Union led efforts since 2018 to avoid this scenario (European Commission, 2018), which led in 2020 to the establishment of a transitional system, called the Multiparty Interim Appeal Arbitration Agreement. The scheme, of a plurilateral nature, operates in practice in a manner analogous to the previous system, with the exception that it covers only the signatory parties (Morales, 2020). The agreement was attended by Brazil and Uruguay, along with twenty other countries. If we had an association agreement in place—with its monitoring bodies and political dialogue in place—it is not unreasonable to think about the possibility of a bi-regional articulation between the European Union and Mercosur that would generate a joint proposal between the two blocs, which would give even more potential and legitimacy to a plurilateral agreement of this nature.

The potential for cooperation between the two blocs exceeds even these spaces: the European Union and the Mercosur countries have shown the existence of shared values, which are reflected in convergences in their approaches to the protection of personal data, the preference for negotiating trade liberalisation based on positive lists (safeguarding some aspects for state provision), or the greater convergence when negotiating intellectual property issues, in which Mercosur has encountered greater difficulties, for example, when faced with the position held by the United States.

On the other hand, with regard to trade flows, it should be noted that the European Union has shown itself to be a market that continues to absorb a significant portion of the exports of the Mercosur countries, even in the face of the exponential increase that China has registered in this regard. Table 4 shows the share of the main destinations outside the zone of Mercosur exports. It highlights the aforementioned exponential increase in China, which went from representing only 2.8% of Mercosur sales in 2001 to being the main export market in 2019, with a share of 23.7%. In the same period, the European Union's share fell from 19.8% to 14.5%. However, this decrease was much smaller than that experienced by the United States, which went from 27.7% to 11%.

These data must be read in the light of the so-called *Brussels effect*, in order to inform decision-making on the environmental issue. As Bradford (2020) points out, the European Union has an extraordinary capacity to disseminate norms and standards globally, through its market size. Therefore, following López (2021), the decision to finalise the association agreement with Mercosur cannot be considered only from the demand to establish high and dignified environmental and labour standards, but also

**TABLE 4. Weight of selected destinations in exports of Mercosur, in %**

| Destination | 2001 | 2005 | 2009 | 2014 | 2019 |
|-------------|------|------|------|------|------|
| EU          | 19,8 | 17,4 | 16,8 | 15,4 | 14,5 |
| USA         | 27,7 | 24,2 | 7,3  | 16,3 | 11   |
| China       | 2,8  | 4,7  | 9,2  | 15   | 23,7 |

Source: Caetano and Pose (2020).

from the consideration of the possibility that the South American bloc, especially Brazil, ends up making agreements with other partners much less demanding in this regard. In fact, the agreement represents an opportunity to raise environmental standards from a promotion perspective, not based on additional restrictions on market access, but on cooperation and technology transfer, for which the political and cooperation chapters of the agreement may be key (Caetano and Pose, 2020b).

Finally, from the perspective of the European Union, closing the agreement with Mercosur would mean being very close to completing the signing of association agreements with all of Latin America and the Caribbean. Currently, the Union has agreements with Mexico, Panama, the Dominican Republic, Costa Rica, El Salvador, Honduras and Nicaragua, as well as Colombia, Chile, Ecuador and Peru in South America. If we add to this its agreement with the Caribbean, and the political and cooperation agreement with Cuba, it would remain to negotiate only with Bolivia and Venezuela. According to Rosales (2020), this would open the possibility for European authorities to centralise meetings with fewer counterparts (Mercosur, Pacific Alliance, Central America, the Caribbean). This would also help to project new coalitions on the main issues on the global agenda. If the existing Ibero-American ties are added to this, the conclusion is that the agreement of association with Mercosur could contribute to the objective of strategic autonomy in foreign policy pursued by the European Union.

### 3.2. *Potential for Mercosur*

Unlike the European Union, perhaps the biggest gain for Mercosur is internal. The closing of an agreement with a bloc of the size that represents the European Union represents a qualitative leap for a weakened Mercosur, with the potential to collaborate in the visualisation of the initiative from more positive perspectives. Related to this, the closing of the agreement could make possible a discipline of the internal agenda, which has been on many occasions marked by the bilateralism of the big ones, Argentina and Brazil, at the expense of the institutionalism and, in particular, of the small partners, Paraguay and Uruguay. Finally, in the line of internal empowerment, the agreement with the European Union can act as an incentive for the ratification of some initiatives, such as the intra-Mercosur government procurement agreement or the integration of automotive trade into the free trade zone, issues that have been repeatedly postponed.

In the case of Mercosur, the agreement can hardly act as a catalyst for the development of a policy of *strategic autonomy*. The enormous weaknesses of Latin American regionalism, from which Mercosur does not escape (Caetano and Pose, 2020c), take away all feasibility from this scenario. In particular, Brazil's authoritarian and erratic drift under the Bolsonaro government—which externally developed a policy of subordination nationalism with the Trump administration—strongly limits the potential

of its intra-bloc leadership, a necessary condition for more vigorous Mercosur action. If Argentina's quasi-permanent difficulty in stabilising its macroeconomy is added to this, it is clear that the bloc does not have the minimum basis to claim autonomous-strategic action at the international level. That said, the agreement can be a tool for the search for an active *non-alignment* policy (Fortín, Heine and Ominami, 2020), necessary for the region in light of the growing international rivalry between the United States and China, as well as the strong ties of dependence that the region maintains with both blocs. The possibility of agreeing with the European Union some positions that avoid costs derived from the need to adhere to the demands of one or another actor in this dispute, for example with regard to the use of 5G technologies, is undoubtedly an aspect to be explored.

An association agreement with the European Union, under certain conditions, can also act as a diversification tool for the trade of the countries of the region which, as observed in the Table 4 data, presents an increasing concentration of shipments to China. That said, a virtuous diversification strategy should not only be based on a logic of countries, but also of products. The bulk of Mercosur countries' exports to China are concentrated in a few commodities. For example, 85% of Uruguay's sales to China are summarised under five subheadings of the Harmonised System, which register four major types of products: beef, soybeans, cellulose pulp and wood (Pose, 2021). If the records of Argentina or Brazil are considered, there is the incorporation of other commodities, such as, for example, iron ore in the Brazilian case. Nevertheless, the structure of trade replicates what was described for Uruguay. However, Mercosur's trade with the European Union, although somewhat more diversified in terms of products, also replicates a commercial logic typical of the North-South flow, as analysed in the first section. Therefore, the potential of the agreement with the European Union at this level is subject to complementary measures that will help change this situation.

In this regard, it is worth mentioning some existing initiatives, which within the framework of an association agreement could be strengthened and expanded. In particular, it highlights the impact that the AL Invest programme has had, which through different tools, and in partnership with the business chambers of the Latin American region, has promoted the productive and export development of micro, small and medium businesses, through financing of innovation, promoting the associativity, technology transfer and support to facilitate access to external markets. In return, it emerges as necessary to avoid the interruption of programmes such as the GSP, as it occurred in 2014, based on arbitrary graduation criteria measured by per capita income, which do not reflect the realities or challenges of the countries of the region on their way to sustainable development.

The historical accumulation and experience of both regions in terms of cooperation suggest that there are grounds for waiting for the implementation of new initiatives that will have a positive impact on the Mercosur countries. In fact, together, European countries and the European Union have historically been the main cooperating partners in the region, although it is also true that in recent years China has gained ground in this area. It should also be noted that very recently, the European Union has been a support in promoting the concept of development in transition, driven by Latin American countries that, after experiencing some years of sustained growth, face a growing exclusion from the main schemes of international development cooperation. Even in qualitative rather than monetary terms, these initiatives are often key to progress towards the achievement of sustainable development objectives<sup>8</sup>.

Finally, from the perspective of Mercosur, it is worth highlighting the potential of the agreement for the deepening of Latin American economic integration, a decisive point for any attempt to reindustrialise the region. In the first place, the closure of the association agreement with the European

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<sup>8</sup> For an analysis of the European Union's agenda, see Sanahuja and Ruiz Sandoval, É. (2019)

Union would leave the bulk of the region with similar agreements in disciplines with the European bloc, which could act as a reference for the establishment of similar disciplines at the intraregional level, since currently most of the agreements covered by the Latin American Integration Association (LAIA) do not have this depth. Secondly, the agreement would be a starting point to seek an accumulation of origin of all Latin American countries that are preferentially linked to the European Union, in order to promote scales and the formation of regional value chains, which today are impossible due to the multiplicity of schemes of accumulation of origin that do not dialogue with each other (Rosales, 2020).

## **4. The COVID-19 pandemic: between the impact of shock and accelerating trends**

### **4.1. National impacts and variants**

Faced with the emergency of COVID-19 in 2020, the first challenge encountered by Mercosur was the one related to health, expressed dramatically by the need to at least mitigate the loss of life in the face of a virus with high propagation capacity, for which there were no vaccines to prevent its contagion or proven treatments to overcome it. The only alternative available to governments was to promote the so-called “social distancing”, with a view to avoiding an exponential rate of contagion and with it the collapse of health systems, very precarious in some countries of the bloc. Thus, mobility restriction measures were implemented with varying intensity. However, unlike other regions, its effectiveness in containing the spread was limited, due to structural factors of Latin American economies and societies (OCDE, 2020). Moreover, despite the accumulations in regional health cooperation in recent decades, responses to the pandemic have been eminently national, while a conception of borders and neighbours as threats has prevailed (Frenkel, 2020; Riggiozzi, 2020).

The impact of the pandemic, already since 2020 but in particular in 2021, has had Latin America as the global epicentre of its consequences at all levels. In order to measure what happened in Mercosur, it is essential to locate it in relation to what happened on this level in the continent. Among the structural factors mentioned is the fact that more than half of the jobs in the region are informal, which has become transparent and aggravated by the impact of the pandemic. According to the International Labour Organisation (ILO), just under half of those employed in the region contributed to a pension system (ILO, 2018). In addition, following ECLAC, only eight Latin American and three Caribbean countries have unemployment insurance (ECLAC, 2020c). The absence of social protection mechanisms, in addition to the insufficiency of private savings and the reduction in remittance flows, the latter aspect not so decisive in the Mercosur partners, threaten the possibilities of complying with the confinement measures, to the extent that informal workers do not have an alternative source of income. Thus, despite political and social response efforts, Latin America was declared in May 2020 as the epicentre of the pandemic, with more than 40% of the deaths worldwide associated at that time with COVID-19 having occurred in the region (OCDE, 2020). This situation has only worsened in mid-2021, when comparisons globally have become more adverse, with no “islands” to be saved from the onslaught of the pandemic<sup>9</sup>.

That said, it should be noted that as a heterogeneous region, these trends have had moments of transient variability by country. For example, cases such as Uruguay or Costa Rica, with more

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<sup>9</sup> Paraguay initially, but especially Uruguay throughout 2020, showed a very moderate impact of the pandemic on its different parameters, which has varied dramatically at least in the first half of 2021.

formalised economies, greater political stability, more powerful health systems and more developed welfare schemes, initially managed to mitigate the effects of the pandemic to a greater extent. On the other hand, in contexts of greater instability and absence of these strengths, situations such as the one experienced in the city of Guayaquil in Ecuador have emerged, or the accusations of corruption in the purchase of ventilators that led to the resignation and subsequent arrest of the Health Minister in Bolivia in 2020. In the largest countries of Latin America, Brazil and Mexico, the passive, if not denialist, attitude of the federal governments was partially alleviated by the actions of the state authorities, which for example in the Brazilian case were key to avoiding an even worse scenario of spread. However, given the inequality of state capacities, such a strategy found its limits, observing for example the dramatic situation of the State of Amazonas caused by the lack of ventilators and other key supplies to treat the disease. On the other hand, in the other giant of Mercosur, Argentina, Giraudy *et al.* (2020) have highlighted that in the initial sections, a greater institutionalisation of the links of political representation, together with a greater social safety net and greater attributions of the federal Executive, made it possible to implement one of the strictest quarantines, although with meagre results. This situation has also worsened in the first half of 2021, with the addition of relative failure at least in the first stage of vaccination plans.

In economic terms, it is necessary to consider that the effect of the pandemic is not only transmitted through the channel of the slowdown generated by social distancing measures, but it is also necessary to incorporate the international dimension. As ECLAC points out (2020b), COVID-19 has affected the region's economies through at least five external transmission channels. The first of these lies in the decrease in the economic activity of the main trading partners, since the region depends markedly on its exports, especially extra-area. The second, also of a commercial nature, was the initial fall in the price of primary products, which constitute the bulk of the export baskets of a good part of the Latin American countries. In several of these items (such as soybeans and meat, among others), this situation has been reversed in 2021. In this sense, the ups and downs of the demand for these products from China were in 2020 gravitating factors. In fact, the commodity price index—which shows 40% of the value of all exports in the region—fell between January and June 2020 by almost 20%, a value that doubles for oil and its derivatives (OCDE, 2020). The incipient recovery of prices that began to be observed at the end of 2020 may open a space for flexibility of this external restriction, although without solving the more structural challenge of this type of international insertion and its ups and downs associated with the cycles of prices and demand.

Third, ECLAC has identified the problem of disruption of global supply chains, which particularly affects Latin America's largest economies, such as Brazil, Mexico and even Argentina, which have the most widespread manufacturing complexes. Fourthly, there is the reduction in demand for tourism services, the collapse of which has affected all Mercosur countries, especially in small and medium-sized economies, where the share of this sector in aggregate output is substantial. Finally, the fifth transmission channel is financial in nature and has to do with the worsening of global conditions in this field. A crisis such as COVID-19 has increased uncertainty in international markets and in that situation, investors migrate to assets perceived as safer, which means the massive outflow of capital from Latin American economies. The most recent monetary stimulus in developed economies—which has pushed real interest rates into negative territory—may offer some room from what happened in early 2020. In any case, the higher spreads faced by the countries of the region, as well as the greater volatility of the flows received, add a note of caution and point to the need to ensure stable sources of financing.

All these elements put pressure on the productive rhythm of the economies and threaten to plunge Latin America in general and Mercosur in particular into a deep recession. In fact, in its June 2020 Global Economic Outlook report, the World Bank projected a 4.6% drop for 2020 regional GDP, after

which a recovery in 2021 of 2.6% would be observed, which would not be enough to cover the expected fall. More recent updates from the IMF (2020) and ECLAC (2020d) estimate the fall of 2020 at even higher values, of 8.1% and 9.1% respectively, which would lead according to ECLAC to a regional GDP per capita similar to that registered for 2010. The World Bank's projections in Table 5 show that the three main Latin American economies would have large falls in 2020, and that none of them would recover in 2021 what was lost. At the same time, according to these projections, always provisional, in the set of Latin American countries, only a few countries would recover in 2021 what was lost in 2020. In other words, far from the expected "V" shaped recovery, the region's economies could take years to recover the economic losses related to the effects of COVID-19. And if we add to this the meagre economic performance prior to the pandemic, the economic and social outlook, both Latin American and Mercosur, is not at all encouraging.

**TABLE 5. National projections of real GDP growth in Latin America and the Caribbean, at market prices, in % (projections made in June)**

|                             |      |      | Differences with January 2020 projection |       |       |       |       |
|-----------------------------|------|------|--|-------|-------|-------|-------|
|                             | 2017 | 2018 | 2019e                                    | 2020p | 2021p | 2020p | 2021p |
| Argentina                   | 2,7  | -2,5 | -2,2                                     | -7,3  | 2,1   | -6    | 0,7   |
| Belize                      | 1,9  | 2,1  | 0,3                                      | -13,5 | 6,7   | -15,6 | 4,9   |
| Bolivia                     | 4,2  | 4,2  | 2,7                                      | -5,9  | 2,2   | -8,9  | -1    |
| Brazil                      | 1,3  | 1,3  | 1,1                                      | -8    | 2,2   | -10   | -0,3  |
| Chile                       | 1,2  | 3,9  | 1,1                                      | -4,3  | 3,1   | -6,8  | 0,1   |
| Colombia                    | 1,4  | 2,5  | 3,3                                      | -4,9  | 3,6   | -8,5  | -0,3  |
| Costa Rica                  | 3    | 2,7  | 2,1                                      | -3,3  | 3     | -5,8  | 0     |
| Dominica                    | 9,5  | 0,5  | 9,6                                      | -4    | 4     | -8,9  | -0,1  |
| Dominican Republic          | 4,7  | 7    | 5,1                                      | -0,8  | 2,5   | -5,8  | -2,5  |
| Ecuador                     | 2,4  | 1,3  | 0,1                                      | -7,4  | 4,1   | -7,6  | 3,3   |
| El Salvador                 | 2,3  | 2,4  | 2,4                                      | -5,4  | 3,8   | -7,9  | 1,3   |
| Grenada                     | 4,4  | 4,2  | 3,1                                      | -9,6  | 6,5   | -12,5 | 3,6   |
| Guatemala                   | 3    | 3,1  | 3,6                                      | -3    | 4,1   | -6    | 0,9   |
| Guyana                      | 2,1  | 4,1  | 4,7                                      | 51,1  | 8,1   | -35,6 | -2,4  |
| Haiti                       | 1,2  | 1,5  | -0,9                                     | -3,5  | 1     | -2,1  | 1,5   |
| Honduras                    | 4,8  | 3,7  | 2,7                                      | -5,8  | 3,7   | -9,3  | 0,2   |
| Jamaica                     | 1    | 1,9  | 0,7                                      | -6,2  | 2,7   | -7,3  | 1,5   |
| Mexico                      | 2,1  | 2,2  | -0,3                                     | -7,5  | 3     | -8,7  | 1,2   |
| Nicaragua                   | 4,6  | -4   | -3,9                                     | -6,3  | 0,7   | -5,8  | 0,1   |
| Panama                      | 5,6  | 3,7  | 3  | -2    | 4,2   | -6,2  | -0,4  |
| Paraguay                    | 5    | 3,4  | 0  | -2,8  | 4,2   | -5,9  | 0,3   |
| Peru                        | 2,5  | 4    | 2,2                                      | -12   | 7     | -15,2 | 3,5   |
| Saint Lucia                 | 2,2  | 1,4  | 1,4                                      | -8,8  | 8,3   | -12   | 5,3   |
| Saint Vicente and the Gren. | 1    | 2    | 0,4                                      | -5,5  | 4     | -7,8  | 1,7   |
| Surinam                     | 1,8  | 2,6  | 2,3                                      | -5    | 3     | -7,5  | 0,9   |
| Uruguay                     | 2,6  | 1,6  | 0,2                                      | -3,7  | 4,6   | -6,2  | 1,1   |

Notes: e = estimated; p = projection.

Source: World Bank (2020: 86).

If we look at the evolution of GDP in the Mercosur countries and project them in their annual variation until 2022, the poor performance predicted for Latin America as a whole is fully confirmed, as can be seen in Table 6. But even more worrying is that within these figures hides a “K” pattern of economic recovery, in which few sectors, usually concentrated, with little impact on employment and “non-dynamic”, following the terminology of Capaldo and Omer (2021), lead the growth, under the cover of a new bullish wave of commodity prices. By contrast, large, labour-intensive segments of industry and services continue with negative numbers and no prospect of recovery in the short term. To this are added recurrent historical tensions, such as those evidenced with the case of Argentina, with the declared objective of seeking a fall in prices in the domestic market —beyond its questionable effectiveness— or the endless debates regarding tax reform in Brazil. All this, in addition, informed by the disruptive impact that can generate measures of reallocation of resources in these fragile economic contexts, as evidenced by the popular response generated by the proposal for a tax reform in Colombia. More than an opportunity for a transition to a more sustainable model, in the short term the health urgency of the region is to avoid a rupture that leads to a channelling of social discontent outside democratic institutions, even with the possibility open to the return of authoritarianism, as has been suggested for example in the speeches of high levels of the Brazilian government, especially President Bolsonaro.

**TABLE 6. GDP growth (%)**

| Country   | 2017 | 2018 | 2019 | 2020 | 2021p | 2022p |
|-----------|------|------|------|------|-------|-------|
| Argentina | 2,7  | -2,5 | -2,1 | -10  | 5,8   | 2,5   |
| Brazil    | 1,3  | 1,3  | 1,4  | -4,1 | 3,7   | 2,6   |
| Paraguay  | 5    | 3,4  | 0    | -0,9 | 4     | 4     |
| Uruguay   | 2,6  | 1,6  | 0,3  | -5,7 | 3     | 3,1   |

Source: International Monetary Fund (April 2021).

Among the most salient consequences that the pandemic will leave in the region, both in the short, medium and long term, as can be seen in Table 7, in the Mercosur partner countries there are serious deteriorations in employment, with inauspicious recovery projections. During the validity of mobility restriction measures, in the face of the implementation of teleworking, the pandemic has highlighted the great digital gaps present in the region, as well as its impact on the deepening of inequality (ECLAC, 2020e). In turn, the already mentioned prevalence of labour informality has accentuated pre-existing situations of social vulnerability, aggravated by the insufficiency of private protection tools. It is true that in the face of the worsening of these problems, in the short term the governments of the region have responded, with varying intensity, with economic support measures (OCDE, 2020). However, as the experience of Brazil’s emergency aid illustrates, these have not generally arisen from a modification of the tax structure with a progressive perspective, nor from the reallocation of expenses, but have been implemented with external financing and with ups and downs, often linked to political swings, so that their necessary sustainability over time appears compromised.

**TABLE 7. Unemployment (%)**

| Country   | 2020 | 2021p | 2022p |
|-----------|------|-------|-------|
| Argentina | 11,4 | 10,6  | 9,3   |
| Brazil    | 13,2 | 14,5  | 13,2  |
| Paraguay  | 6,6  | 6,1   | 5,9   |
| Uruguay   | 10,4 | 10,3  | 9,1   |

Source: International Monetary Fund (April 2021).

The projected economic deterioration would be accompanied by an increase in informal work, which in the medium term will put pressure on the financial sustainability of social security systems, already very compromised in several countries (Saldain, 2020), both by the decrease in direct contributions and by the reduction in coverage. ECLAC's projection (2020d) is that in 2020 the Latin American unemployment rate will reach 13.5%, which represents an increase of 5.4% compared to 2019. With the forecasts and projections of economic recovery, the return to pre-crisis occupancy levels is visualised, at best, as distant. These phenomena affect in a particularly pronounced way the most vulnerable groups such as women, youth, Afro-descendants and the rural population, which show higher levels of labour informality and structural unemployment than the average.

Projections of this organisation suggest that the expected economic fall will generate 45 million more poor in the region, thus intensifying the trend already registered in recent years with the global economic slowdown. In total, the region is expected to exceed 230 million people living in poverty, representing 37 per cent of the population. In addition, the pandemic will impact the increase in extreme poverty, adding 28 million Latin Americans to this category. In this way, the region's ability to achieve the Sustainable Development Goals by 2030 in social matters will be extremely compromised. The increase in poverty would affect all Latin American countries, but it would do so most harshly in the three largest economies in the region, two of them in Mercosur, underscoring their vulnerability and expansiveness (ECLAC, 2020c; 2020d).

Along with an increase in poverty, another related expected effect is the increase in already high inequality in the region. In this regard, ECLAC (2020c; 2020d) projects increases in the Gini index of between 1% and 8%, with the worst results expected again for the largest economies (Brazil, Mexico and Argentina). Thus, in the absence of strong compensatory measures, Latin America could lose the progress made in this area in recent decades, in addition to putting greater pressure on the lower-middle strata regarding their possibility of falling into poverty. Finally, and although more difficult to estimate, it is necessary to incorporate medium- and long-term projections regarding the deterioration of regional human development. This is because transitory episodes of poor nutrition or disengagement from the education system can generate more lasting effects, so having reliable information can help visualise that the cost of rigid austerity strategies and not acting with adequate policy responses can be greater than that of resorting to different financing initiatives to implement early and timely intervention measures.

That said, no analysis can ignore that the accumulation of economic and social challenges occurs at a time of marked fiscal constraints in the region, leading one to wonder about the potential political and political economy tensions that may arise. As has been said, most Latin American countries already faced growing discontent among their citizens regarding the functioning of politics at the national level, which made possible, among other things, the arrival of *outsiders* and messianic leaders to prominent positions of power. From what is being seen, the poor performance of these types of leaders in the management of the pandemic could erode their attractiveness to the electorates, thus accelerating their political decline. In this sense, perhaps the most illustrative case—but not the only one—is again that of Brazil, whose president has had a very poor performance in the face of the challenges of the pandemic, which has led his country to have been—even until mid-2021—the second with the most cases of deaths from COVID-19 on the planet.

The political situation has in fact been subject to the ups and downs of the pandemic in all countries, whether for health, economic or social management. In this framework, the processes of erosion of trust in political institutions deepen or accelerate political changes. Although in Paraguay there was a threat in that sense in the first months of 2021, so far this is not the case of the Mercosur countries, not even in the tragic Brazil of the last biennium.

In any case, once the most critical phase of the pandemic has passed, economic dissatisfaction, which will surely acquire increasing proportions, will test the resilience of the already deteriorated Latin American political systems in general and Mercosur in particular. In particular, in Brazil and Argentina, electoral processes of polarisation and extreme uncertainties are looming. And it is not clear that the decline of personalist leadership is simply correlated with the strengthening of democracies, particularly in a continent where the militarisation of states has increased in most countries. Therefore, government capacities to effectively implement a necessary increase in public investment, as well as to manage distributional tensions in an inclusive manner—particularly if a deepening of inequality is to be avoided in a context of increasing restrictions—will be key to maintaining political dynamics that avoid the deepening of social polarisation and the breakdown of institutionalisation. In this context, some of the Mercosur countries are not disconnected from the possibility that the pandemic will entail the risk of an increase in political instability.

#### **4.2. *The absences of regionalism in responses to the pandemic***

In the lack of effectiveness in responding to the very strong impact of the pandemic, the extreme weakness of regionalism throughout Latin America, including Mercosur, has played a very special role. From the consideration of the spaces of intergovernmental coordination that Mercosur has, *a priori* it could be expected that, in the face of a phenomenon of evident international dimensions, countries would resort to them to define strategies for joint action. In this sense, perhaps the most obvious potential dimension of cooperation was precisely the health dimension, both in order to minimise friction at the border and to ensure access to medical supplies and vaccines. Frenkel (2020) and Riggiozzi (2020) show that, on the contrary, the main approach between neighbouring countries in the context of the pandemic has been under the perspective of “threats”. The weakening of regional coordination bodies in Mercosur and Latin America has deprived the countries of the region of having a greater response capacity of their States, thus affecting both public health and the economy. Such phenomena are linked to previously reviewed national political trends, as political polarisation and denial of the severity of the pandemic have been at the centre of the domestic political strategies of some governments (Sanahuja, 2020).

The de facto dissolved Union of South American Nations (UNASUR) had a sectoral health council that had made progress in regional cooperation, both in substantive terms and compared to other sectoral

councils of the organisation that showed little dynamism. However, its supposed successor PROSUR (Forum for the Progress of South America) has so far had as its only response the holding of sporadic videoconferences between the leaders of the region, without any concrete action other than the establishment of a working group at the level of its Treasury ministers. Given these regional shortcomings, coupled with the delays and failures of the WHO Covax mechanism, States have had to negotiate directly with laboratories and producing countries to access vaccines, with generally discrete results, which in general terms has left Mercosur and Latin American countries lagging behind in terms of vaccination compared to other regions.

Somewhat more active has been ECLAC, which, driven by the work of Mexico's *pro tempore* presidency, has organised meetings with experts and universities to monitor the pandemic. Likewise, this organisation asked ECLAC to design a specific mechanism to face the pandemic, which was reflected in the creation of the Covid-19 Observatory in Latin America and the Caribbean: Economic and Social Impact, which has since generated valuable applied knowledge about the phenomenon (Guadamarra and González, 2020). That said, political disagreements among its members have prevented more decisive action at the international level, for example to avoid the risks of subordination that arise from the establishment of uncoordinated bilateral initiatives on cooperation with China in the fight against the pandemic.

At the subregional level, some variants have been observed. The Global South Observatory of the London School of Economics has highlighted, for example, the initial agility of the response of the Caribbean Community (CARICOM), which held multiple meetings to coordinate a consensual response. However, agreements have been limited, which is reflected in the absence of a common public health protocol or common border policies. But even this limited coordination is striking in the face of the almost non-existent response obtained at the Mercosur level. During the first months of the pandemic, the bloc's actions were limited to holding very few meetings to share information and statistics, enabling the reduction of the common external tariff for the import of goods related to the health emergency and approving a common fund of only ten million dollars for joint actions against the virus. This low commitment in terms of response, despite the combined capacities in economic and scientific terms of the bloc, has led those responsible for the observatory to conclude that all this is expressive of a broader malaise within Mercosur (Alden and Dunst, 2020).

It is also striking that in an observatory like the one mentioned above, there are not even references to other relevant subregional schemes, which denotes the extreme weakness of the continent in terms of integrated response. In fact, even Latin American countries that are linked to the United States through bilateral preferential agreements could find their access to generic versions of a coronavirus vaccine difficult in the future. In this regard, it should be noted that the amendment to the Agreement on Trade-Related Aspects of Intellectual Property Rights of the World Trade Organisation explicitly enables the use of compulsory licenses in exceptional public health situations, although it is known that bilateral agreements with the United States do not necessarily provide for such flexibilities. In any case, the Biden administration has expressed its willingness to open these issues, in a global lawsuit in which Latin America in general and Mercosur in particular do not reach even a capacity of consistent dialogue.

In addition to the possible cooperation at the health level, the commercial and financial spheres appear as other potential dimensions for the articulated action of the countries of the region in the face of the effects of the pandemic. Both ECLAC (2021) and OCDE (2020) itself have stressed that the crisis will deepen the trend towards the regionalisation of supply chains and that, within this framework, regional integration can be key both in terms of inputs and to replace or complement extra-regional consumer

markets. However, in the case of Mercosur, the bloc is bogged down in the economic policy divergences preferred by the bloc's largest members, Argentina and Brazil, which have accelerated as a result of the COVID-19 emergency (Bizzozero and Pose, 2020). In concrete terms, at the end of April, Argentina announced that it was withdrawing from the trade negotiations that Mercosur was carrying out with different Asian countries, since it considered that such an opening in the midst of the pandemic eroded its ability to rebuild its committed industrial fabric. This position clashes with Brazil's objective of opening up its economy, either through the formation of preferential agreements with partners of greater relative development, or through the reduction of the common external tariff. In this way, beyond even what happens in the negotiations with the European Union, the bloc is shaping up towards a new scenario of stagnation at a time that requires coordinated responses.

All this happens, moreover, within the framework of the attempt to experiment with a unilateral bet of Brazil — emphatically defended by Bolsonaro, but which finds not so enthusiastic visions in other partners of his government, for example, in the military— for the unrestricted alignment with the United States, not always reciprocated by the power of the North, as shown by the decision of the Trump's Administration to ban flights from the South American country after the exponential growth of its rate of COVID-19 infections. Biden's victory in the US elections, beyond the implosion of the “dreams” of Bolsonaro's “subordination nationalism”, does not seem to be going to substantively modify this situation.

Something similar can be observed at the financial level, where intraregional cooperation could collaborate in the search for stable and predictable external financing, more necessary than ever. However, in the face of events such as the election of the president of the Inter-American Development Bank and the pressure of the Trump Administration to impose a U.S. candidate, the region showed such a level of division that it ensured the election of the first non-Latin American president of the institution since its creation in 1959<sup>10</sup>. In the same vein, progressively, the countries of the region are facing at the financial level the growing competition for influence in the region between the United States and China. The scope of this dispute can be seen in its projection through Ecuador's agreement with the United States (signed by former President Lenin Moreno), which offers preferential financing in exchange for excluding China from the provision of different infrastructure projects.

In short, in a geopolitical context such as the current one, characterised by greater fragmentation and competition between two techno-economic blocs, Mercosur and Latin America seem to require more than ever an intraregional articulation to avoid the worst effects of a “double subordination” that was already visualised before the pandemic (Caetano and Pose, 2020). However, policy decisions at the level of the Mercosur nation states not only prevail but seem to be heading in different directions. The solo exits in order to “sneak among the greats”, as Uruguayan President Luis Lacalle Pou has said, as a synthesis of his policy on the issue of obtaining vaccines against COVID-19, do not seem to be outlined in any way as reasonable strategies to face the multiple challenges of the coming time.

As has been seen, the response given to the pandemic by the Mercosur countries, to say the least, is not augural. The almost total absence of basic cooperation between the bloc's partners, as well as the deployment of uncoordinated policies in the face of a challenge of such magnitude, do not outline a good scenario for the potential of the agreements between the European Union and Mercosur to be exploited as suitable instruments for processes as decisive as those of productive transformation, technology transfer and the improvement of competitiveness via digitalisation, among others. The

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<sup>10</sup> While Argentina eagerly sought at least a postponement of the election, Brazil, Paraguay and Uruguay voted for Trump's candidate, Claver Carone.

information of recent days confirms the evidence that the countries of South America in general and those of the Mercosur bloc in particular today constitute one of the epicentres with the greatest impact of the pandemic at all levels, both in health, economic and social matters. The most recent OECD and ECLAC reports are very pessimistic about the length of the recovery period to pre-COVID-19 levels. To give a worrying and demonstrative example in this regard, in May, an OECD study reported that it will take Argentina at least until 2026 to return to the level of per capita income prior to the pandemic (OECD, 2021). The multiple weaknesses of regionalism and integration within Mercosur aggravate the pessimistic prospects in this regard.

## 5. Colophon

The COVID-19 pandemic and its effects, in more ways than one, can be configured as a whole from the dimensions of a privileged observatory for a “longer” look at the contemporary history of the region, as a demanding interpellation from multiple dimensions for the whole of Latin America and perhaps as an inflection, even if the uncertainties still in progress do not allow us to glimpse with certainty a defined course. In the light of the above study, all the tracks of analysis seem to converge—perhaps from different levels—in a perspective of aggravation of what was already a critical situation in general terms in Latin America and in the countries of the Mercosur bloc. With the focus on the health, economic, social, political and geopolitical effects that the pandemic will leave, an analytical strategy that makes a reasonable balance between the before and after of this historical milestone can only confirm that the weakness of regionalism in Mercosur seems to operate in a negative way for the near future.

In this sense, this situation operates as an obstacle even to the exploitation of favourable opportunities, which is also evident in the willingness and ability to project the potential of the EU-Mercosur agreements for policy dialogue and the favourable convergence of rules on particularly sensitive issues. That same balance that does not really seem to accumulate many reasons for optimism, however, becomes a strategic imperative when proposing the “target scenarios” in the prospective of “futures” for both regions. Without undermining the difficulties and differences that have become apparent again in this last stage of the negotiation, there are also many strategic reasons to emphasise the need for truly strategic convergence between the EU and Mercosur, perhaps today more than ever.

## Brief Post Scriptum

As noted in the introduction to this paper, Russia’s invasion of Ukraine, confirmed after a long period of tensions on 24 February, is an event that may have a direct impact on the upcoming steps of the EU-Mercosur treaty negotiations. Although it is too early to be able to dispel doubts, different government spokespersons, analysts and media outlets have echoed this issue over the last month. Firstly, the outbreak of the war has left the Mercosur bloc’s two large partners, Brazil, and Argentina, in a somewhat awkward situation. Barely a week after Bolsonaro was received by Putin in Moscow and less than three weeks after a similar visit by Alberto Fernández, amid strong pressure, both countries have had to join in condemning the invasion at the United Nations, although they had previously managed to avoid a similar declaration at the Organisation of American States (OAS). In the latter, they were curiously aligned in a minority position within the Inter-American system, along with Bolivia, Nicaragua, and Cuba (Galarraga Gortázar and Rivas Molina, 2022). In any case, despite their respective diplomatic efforts, both governments, despite their manifest differences, were unable to maintain the neutral stance towards which their initial efforts were aimed at.

In the context of a Latin American continent in which the presence of other powers, in addition to the classic American gravitation and the confirmation of the relevance of China and, to a lesser degree, the EU, not only Russia but also Iran, India and Turkey are making their influence felt in various fields. In this context and amidst the growing uncertainties that persist, the signals emerging as to whether or not all this favours the unblocking of the negotiations are contradictory. In this regard, two recent opinions have been manifested by qualified voices that have expressed a completely adverse opinion on the matter.

While the renowned German journalist, Alexander Busch, has expressed the opinion that “Brazil and Argentina are distancing themselves from Europe” and that the latest events further complicate the confirmation of the agreement (Busch, 2022), the Uruguayan expert Martín Dorce has recently expressed his conviction that the unleashed war “rekindles” the possibilities of advancing the Treaty”, an opinion that was later explicitly endorsed by the EU ambassador to Uruguay, Paolo Berizzi. The latter has gone so far as to declare publicly: “Having reliable partners that not only buy your products but that (...) respect (...) international law and do not violate borders, this brings back the importance of the reliability of partners both commercially and politically, (which) can help to bring positions closer to finalising this agreement”<sup>11</sup>. In this uncertain framework, any speculation is premature.

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