

FREE TRADE AGREEMENTS WITH ASIA: TRADE CHALLENGES FOR URUGUAY

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INTRODUCTION

Uruguay is a country that has been connected to the world since its independence both because of the importance of its main port (Montevideo) and the continuous arrival of immigrants at different periods of history. In the 21st century, this small South American country has constantly sought to present itself as the gateway to Latin America. However, beyond the attempts by governments of different parties to move forward in terms of trade liberalization, Uruguay currently faces several challenges.

An initial aspect to highlight regarding Uruguay's trade openness is that in the last decade both the *Frente Amplio's* governments (center-left wing party that governed between 2005 until March 2020) and the current administration led by Luis Lacalle Pou from *Partido Nacional* (who led a coalition of right-wing parties - *Coalición Multicolor*) raised the possibility of seeking trade agreements. However, it should be noted that there is no complete consensus within the Uruguayan political system regarding this trade policy tool, as was demonstrated by the discussion of the FTA with the United States 15 years ago or the debate to ratify the FTA with Chile in 2018 (López 2021). In this sense, if some progress is made in certain negotiations, it will depend also on the type of agreement reached and the conformation of the Parliament at the time of ratification to materialize it.

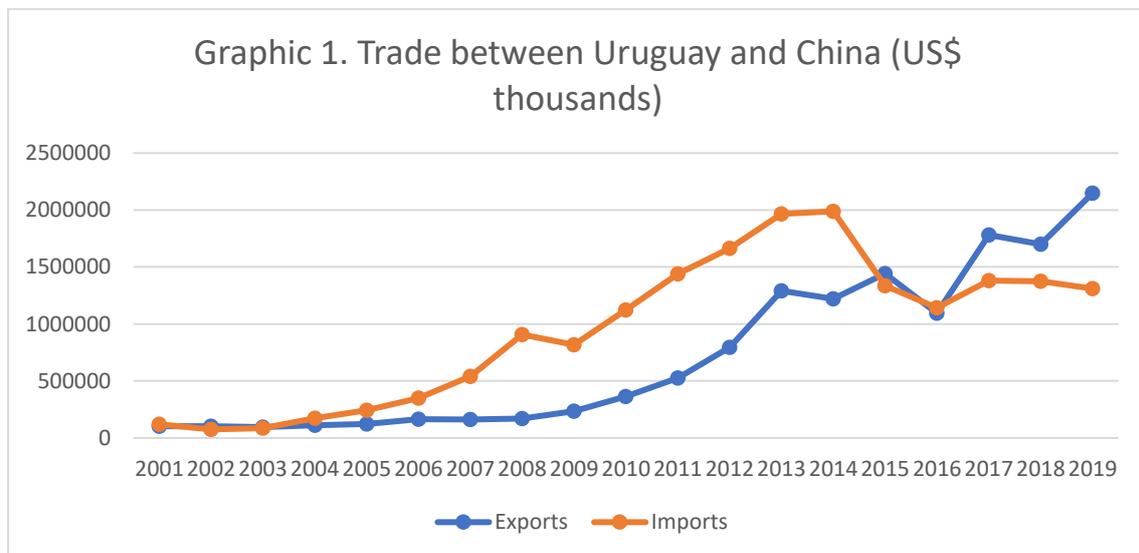
On the other hand, it should be noted that both the previous government of Tabaré Vázquez (*Frente Amplio*) and the current government of Lacalle Pou sought to make Mercosur more flexible. However, the new Uruguayan government's insistence on trade liberalization (due to a more liberal ideology and the support of exporting sectors) implied a different and more confrontational strategy towards Mercosur. An example of this strategy is the Uruguayan government's communication to its partners that it will seek trade agreements with third countries at the presidential summit in June 2021 (AFP 2021).

In this article I present a description of the opportunities and challenges of trade relations with East Asian countries in the context of the current government and the events of the last few months regarding Mercosur. The coming months, during Brazil's pro tempore presidency of Mercosur, will be key to observe the steps taken by Uruguay. It could be expected that Lacalle Pou's government will attempt to make some progress with China, which is the main objective of the sectors seeking openness. At the same time, it will be necessary to observe what happens with the negotiation with South Korea, since it is a negotiation process that was started jointly in Mercosur and thought at different speeds between members. Ultimately there could be a double difficulty for trade openness to Uruguay: the margin allowed in Mercosur to advance in FTA's without negotiating with other members and then a potential future debate at domestic level.

RELATIONS AND OPPORTUNITIES WITH EAST ASIA

Uruguay's ties with Asian countries have historically been limited, since there have not been large migratory flows from that part of the world. Uruguay's relations with the People's Republic of China were late compared to the rest of the region because it recognized China only in 1988 when its neighbors had done so in the 1970s (Raggio 2020). However, in the last decade, because of the increase of trade, China has become a key player for the Uruguayan economy (graphic 1). Currently, 27.5% of Uruguay's exports go to China (Uruguay XXI 2019). These growing relations have also been expressed in other areas such as cooperation and more recently in investments with the arrival of China Machinery Engineering Corporation company for a large electrical system project in the north part of the country.

In this sense, Uruguay's relations with China have increased greatly in recent years. Former President Vázquez signed a strategic partnership agreement in 2016 and Uruguay supported two major Chinese initiatives such as the Belt and Road Initiative and the Asian Infrastructure and Investment Bank. In addition to the increase in twinning agreements between cities in both countries (Raggio 2021), the recent opening of two Uruguayan consulates in China (Chongqing and Guangzhou) is an example of the great relationship that goes beyond the political sign of the government party. In this context, the possibility of signing a free trade agreement with China has also been raised.

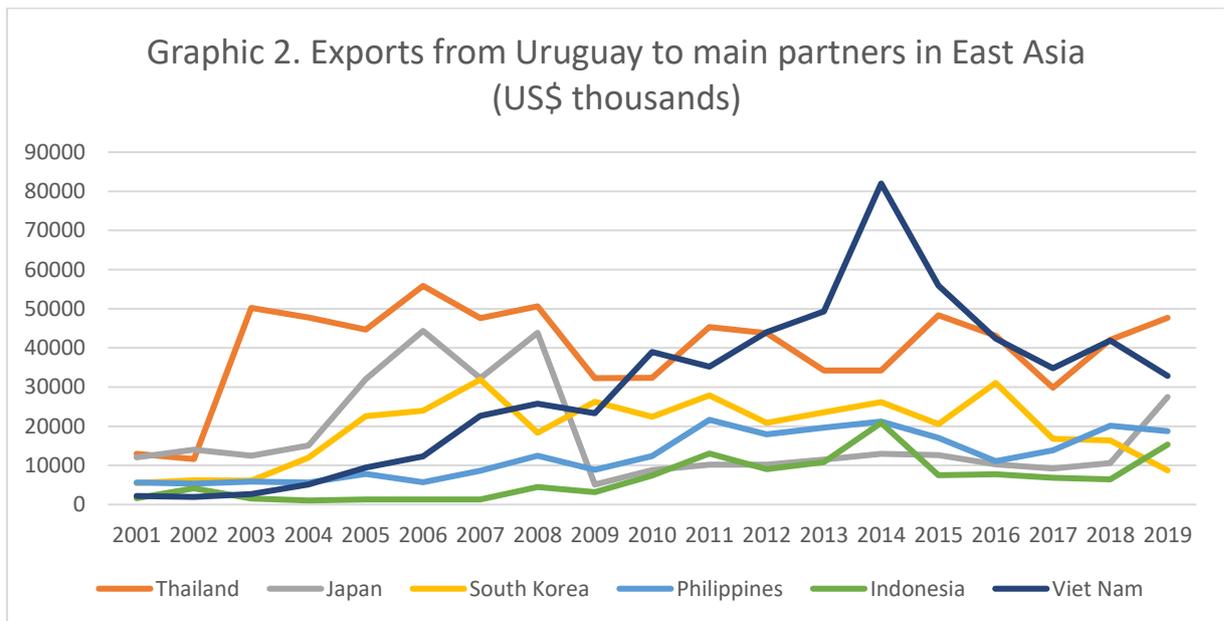


Source: Trade Map

Relations with other Asian country like Japan date back to the first decades of the 21st century. This year commemorates the 100th anniversary of diplomatic relations and probably the Uruguayan president will travel to Japan in a few months. Political and diplomatic ties have been deepening in recent decades, as well as cultural relations and visits by political representatives of both countries, including heads of state and government (De María and Telias 2020). In 2018, the 110th anniversary of Japanese immigration to Uruguay was celebrated and Prime Minister Abe made an official visit to Uruguay in December, the first time in history that a Prime Minister of Japan officially visited Uruguay.

In the last decade Uruguay has requested access to the Japanese market for fresh and refrigerated beef, an objective that was achieved in 2018 after years of negotiations. Also, it should be noted that in a visit of former President Vázquez to Japan in 2015, Uruguay raised the possibility of a Free Trade Agreement with Japan, although in recent years it is not an aspect that seems to be on the agenda.

Regarding other East Asian countries, Uruguay does not have a large volume of trade comparing for example with China. The differences in trade between Uruguay with China and with other countries are massive. For example, in terms of exports in 2019, while China represented 27%, countries such as Thailand, Japan, South Korea, Philippines, Indonesia and Vietnam (graphic 2) represented less than 1%, and together they do not represent 2% of Uruguay's export destinations. In this sense it can be said that Uruguay's trade relations for example with ASEAN countries is of low intensity (Bartesaghi and Melgar 2020). Although, different attempts have been made to expand relations with those countries. An example of that is the opening of the Uruguayan Embassy in Indonesia in 2018.



Source: Trade Map

In the case of South Korea, despite being similar amounts of trade with the rest of the East Asian countries, its situation differs due to the current FTA negotiations with Mercosur. In 2018 a round of negotiations was initiated and subsequently a series of meetings were held in the last years. However, Argentina's reluctance to move forward prevented some progress in 2020, although the possibility of advancing at different speeds was a concrete option (Sallé 2020). In the last month, the sixth round of negotiations was taking place and is expected to have a new round in the coming months. FTA with South Korea is an agreement that has been requested with great interest by the Uruguayan meat industry (El Observador 2021) and which raises certain objections in Argentina due to Korea's industrial capacity. In any case, Uruguay is leading those negotiations that could advance at different speeds between members.

CHALLENGES: MERCOSUR AND DOMESTIC POLICY

Lacalle Pou's government has sought to make Mercosur more flexible since it came to power, as also did former Uruguayan governments. However, the strategy chosen by Lacalle Pou has led tensions with Argentine President Alberto Fernández. The opposing views about Mercosur were evidenced in the exchange of speeches in March 2021, where Lacalle Pou said that Mercosur was a burden and where his Argentine colleague replied that "If we are a burden, take another boat" (Mander 2021). After this episode, a document was presented by Uruguay and Brazil in April seeking to lower the common external tariff of Mercosur and the possibility that each country by himself could negotiate with countries outside the bloc. In this way, Uruguay found in Brazil a partner to try to make Mercosur more flexible (Rodríguez 2021).

This proposal of lowering the common external tariff failed in July leading to the announcement by Uruguay government that it will begin talks with third countries to negotiate extra-zone trade agreements. This decision breaks in a certain way with the consensus practices within Mercosur and decision 32/00, which implies the commitment of the member states to negotiate trade agreements with third countries or blocs only jointly or after the authorization of the other Mercosur partners, as was the case in the negotiation of an FTA between Uruguay and Mexico. However, the Uruguayan Foreign Minister, Francisco Bustillo, said that decision 32/00 is not in force (Draper 2021).

In this context, the coming months will be important to see the path taken by Uruguay and the responses of the two major partners of the bloc (Argentina and Brazil) to the progress that Uruguay may make. It should be noted that in Brazil taking over Mercosur presidency after Argentina, there is also no consensus on trade liberalization and there will be elections next year, which could lead to a change of government. The other small member of Mercosur, Paraguay, has already expressed its opposition to negotiating individual agreements. Additionally, it remains to be seen to what extent China wants to start negotiations with Uruguay, knowing that this could generate friction with Argentina. A first step that could be expected in the short-term is the possibility of a feasibility study with China to analyze an FTA impact (Albertoni 2021). In the case of the agreement with South Korea, the situation is different because Mercosur is advancing as a bloc (with different speeds), so it remains to see if Uruguay will continue with that strategy or look for negotiating individually with South Korea.

Finally, we should not forget the importance of the domestic discussion regarding potential agreements. Although in the ruling coalition there would seem to be a consensus, certain sectors of the opposition party *Frente Amplio* (which obtained 39% of the votes in the first-round of 2019 election) do not agree with a possible FTA with China. This issue is important because in case there is no prior consensus, the ratification process after the negotiation rounds and the agreement itself could become more complex depending on the conformation of the future government in office. This aspect of ratification is not a trivial problem as we could see in the case of the European Union - Mercosur agreement. After 20 years of negotiations, several European countries have

not ratified the agreement achieved. In the case of a possible agreement with China depending on when it concludes we should not forget the local political aspect either. In the case of an FTA with South Korea, the situation may be different, and the internal objections may be not -so serious due to the fact that it is being negotiated within the Mercosur framework and it is not an economy as large as China.

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