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FEATURED Q&A

Would Mercosur & China Be Able to Strike a Trade Deal?

China's ambassador to Uruguay recently expressed openness to a free trade agreement with the Mercosur trade bloc, whose headquarters in Montevideo is pictured. // File Photo: Igna via Creative Commons.

Q China's ambassador to Uruguay said during a virtual forum on May 5 that China has an "open attitude" toward establishing a free trade agreement with the Mercosur trade bloc, or bilaterally with Uruguay. Despite ample trade ties with member countries of the group, which also includes Brazil, Argentina and Paraguay, China's previous attempts to negotiate a trade deal with Mercosur have proven unsuccessful due to the bloc's strict trading rules. What exactly has prevented a China-Mercosur trade accord in the past, and to what extent is a deal likely in the near term? Would bilateral negotiations with Uruguay and others be a better option for China, and are such agreements even possible under current Mercosur rules? What would the South American nations stand to gain from a trade deal with China, and vice versa?

A Tatiana Prazeres, senior fellow at the University of International Business and Economics in Beijing and former secretary of foreign trade of Brazil: "A China-Mercosur free trade agreement is extremely unlikely in the near term. Such an idea faces tremendous resistance both in Brazil and in Argentina, where the industrial sector already complains about Chinese competition. Additionally, developing closer ties with China is far from being a popular proposition for most supporters of the current Brazilian president. Even if the agribusiness sector in Brazil and Argentina would like to see lower entry barriers to the Chinese market, the current political and economic scenario does not favor a bold move such as a free trade agreement (FTA). Uruguay and Paraguay have traditionally been more favorable to trade

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TODAY'S NEWS

POLITICAL

Shining Path Militants Kill at Least 16 in Peru

Leftist Shining Path militants killed at least 16 people, including two children, in a massacre ahead of the country's presidential vote, the military said. Pamphlets urging people not to vote were found at the scene.

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BUSINESS

Pemex to Take Over U.S. Refinery in Deal With Shell

Pemex has signed a deal with Royal Dutch Shell to take over its 50 percent stake in a Texas refinery whose ownership it has shared with the Mexican state oil company.

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POLITICAL

Lasso Sworn in as President of Ecuador

Guillermo Lasso, who was elected Ecuador's president on his third attempt, was inaugurated Monday. He vowed to speed the country's Covid-19 vaccination efforts and to help revive the economy.

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Lasso // Photo: @LassoGuillermo via Twitter.

POLITICAL NEWS

Lasso Takes Office in Ecuador, Vows to Speed Vaccine Efforts

Guillermo Lasso, a former banker who was elected Ecuador's president last month on his third attempt at the office, was sworn in Monday, vowing to accelerate efforts at vaccinating people against Covid-19 and to help revive the country's economy, the Associated Press reported. Ecuador has so far vaccinated just 3 percent of its population, and it is facing high levels of unemployment and debt, the wire service reported. Lasso said he wants his government to vaccinate nine million people during his first 100 days in office. He said he has reached out to vaccine producers in the United States, China and Russia in order to achieve that number of vaccinations. "It will not be a government that only promises," Lasso said in his inaugural address. "As Ecuadoreans, we all share the same destiny, it is everyone's obligation to assume the challenges that the future imposes on us, enormous challenges that cannot be faced in isolation." While he is seeking to spur economic growth, Lasso also faces tight government finances, and the country's National Assembly is led by Guadalupe Llori, whose Indigenous Pachakutik party has often opposed projects in the mining and oil industries that make up much of the country's export income, Reuters reported. Lasso has said he would promote investment in the private sector and would seek a review of the country's $6.5 billion agreement with the International Monetary Fund in order to soften some of the terms of the deal. Lenín Moreno, whom Lasso succeeded as president, did not seek a second term and was unable to boost the economy through free-market measures such as reducing government spending and borrowing from the IMF. Two years ago, Lasso told the Advisor in an **interview** that his main goals as president would include strengthening government institutions, increasing confidence in the economy and using new technologies to attract investment and create jobs. "The best social policy is one that creates jobs," he told the Advisor. "This is only possible if you create an ecosystem that allows for local investment, international investment and that generates jobs."

> **"It will not be a government that only promises."**
>
> **— Guillermo Lasso**

BUSINESS NEWS

Pemex to Take Over U.S.-Based Refinery in $596 Million Deal

Mexican state oil company Pemex has inked a deal to take over a U.S.-based refinery it shares with Royal Dutch Shell, the Mexican firm announced Monday. The company has agreed to buy Shell's 50 percent stake for $596 million, bringing it full ownership of the facility in Deer Park, Tex. The Mexican government will fully finance the transaction, which is set to close in the fourth quarter. Shell will retain control of a chemical plant next to the refinery. The announcement comes weeks after Mexican President Andrés Manuel López Obrador blasted the joint venture, saying "there have been no benefits for Mexico" since the refinery was built, Reuters reported. He also said it barely processed any Mexican crude. Pemex currently sells Maya heavy crude to the facility, which has the capacity to process as many as 340,000 barrels per day of oil, Reuters reported. However, he praised the announced agreement on Twitter. "The most important thing is that in 2023 we will be self-sufficient in gasoline and diesel," López Obrador wrote. "There will be no increases in fuel prices," he added. Making Mexico energy self-sufficient has been one of the cornerstones of López Obrador's agenda. [Editor's note: See related **Q&A** in the April 16 issue of the Energy Advisor.]

NEWS BRIEFS

Shining Path Kills at Least 16 Ahead of Peru Vote, Children Among the Dead

Members of the leftist Shining Path militant group killed at least 16 people, including two children, in a remote area of Peru, the country's military said Monday, Reuters reported. Pamphlets urging people not to vote in Peru's June 6 election were found at the site of the massacre, which happened Sunday in the cocaine-producing VRAEM area.

López Obrador Urges U.S. Not to Downgrade Mexico's Air Safety Rating

Mexican President Andrés Manuel López Obrador on Monday urged U.S. authorities not to downgrade Mexico's air safety designation, saying the country is complying with all the pertinent norms, Reuters reported. His comments came days after reports that the U.S. government is planning to downgrade the Latin American nation's aviation safety rating, which would block Mexican carriers from adding new U.S. flights and limit airlines' ability to carry out marketing agreements, the wire service reported.

Chile's Codelco Reaches Deal With Microsoft to Digitize Mine Operations

Chile's Codelco, the world's largest copper producer, said on Monday that it had reached a deal with Microsoft to fast-track the digitization of its mining operations, help extend automation and improve analytics, Reuters reported. Codelco said the joint project with the tech giant would help make its production processes more efficient and improve "sustainability" within its operations. The initiative could make some areas "completely remote and automated," which would reduce risks and boost "productivity, safety and reliability," the miner said.

Brazil's Ebanx Eyes Potential U.S. Initial Public Offering

Brazilian fintech company Ebanx is preparing for an initial public offering and will likely list shares in the United States, Bloomberg News reported Monday. The firm, based in Curitiba, is proceeding with a plan to expand its payment processing services across Latin America. The plan includes a new platform to integrate local transactions as well as transactions carried out between different countries, the news service reported. The Ebanx One platform combines various payment methods into a single system and is a big step toward an initial public offering, likely in the United States, the company's chief executive officer, João Del Valle, told Bloomberg News. "We haven't set a date yet, but we are taking this IPO readiness project very seriously, and Ebanx One is at the core of our business value," he said in an interview. He did not say whether Ebanx had already hired investment banks to manage the offering. Ebanx handles payments in Latin America for companies including Uber Technologies, Airbnb and Spotify Technology. The company also expects to seek more mergers and acquisitions in order to speed its growth in the region, said Del Valle. In January, Ebanx acquired 30 percent of Topázio, a Brazilian lender that has authorization to operate in Brazil's currency market. 'We will not wait for the IPO to make another move," said Del Valle, adding that the company is planning another private funding round this year. Ebanx last raised money in 2019 and at that time had a value of $1 billion following a second round of investments by FTV Capital. Last year, Ebanx processed 145 million transactions, a 38 percent increase from 2019. The company has seen growth of more than 200 percent last year outside of Brazil as the Covid-19 pandemic fueled e-commerce. The pandemic "has accelerated consumer and business adoption of digital services across all socioeconomic groups," Carolina Costa, head of Latin America government affairs at RELX, told the Financial Services Advisor in a **Q&A** published April 7.

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liberalization, but it is hard to imagine that they could persuade the other two players in the direction of an FTA with China. To further complicate the situation, Paraguay has diplomatic ties with Taiwan. Mercosur negotiates tariff-reduction agreements as a bloc, and consensus among its members is necessary. Ideas for making Mercosur more flexible and for allowing its members to negotiate FTAs individually have been floated for years. That, however, would require a significant change in Mercosur itself, downgrading the ambition of the integration process to a free trade area. While that is not impossible, it is difficult, given the political and economic implications. Mercosur members may well agree that the bloc needs to deepen its integration to the global economy and expand its network of trade agreements. But I doubt that Mercosur countries could converge around the idea that China should be their priority for an FTA."

A Margaret Myers, director of the Asia & Latin America program at the Inter-American Dialogue: "China's interest in a trade agreement with Uruguay and Mercosur is not a new thing. A feasibility study for a Uruguay-China trade deal seemed imminent in 2016. And talk of Chinese deal with Mercosur featured prominently in discussions at the China-Mercosur Dialogue in Montevideo in 2018. However, prospects for a Chinese trade deal with the bloc and/or its members have thus far been limited by the bloc's own rules, which have required bloc-wide approval of agreements with countries outside of Mercosur. At this juncture, with Bolsonaro at the helm, it's hard to imagine that Brazil would be supportive of either Uruguay's long-standing interest in an FTA or a Mercosur agreement with China. This is nevertheless an opportune moment for China to again raise the prospect of another trade deal in the Southern Cone. China's 'openness' to a pact with either Uruguay or Mercosur may very well advance objectives other than trade-related ones. The prospect of enhanced trade with China could help tip the scale in Paraguay, for example, especially as agricultural groups continue to lobby for a formal relationship with China. The Asian country has taken a more aggressive approach to shaping Paraguay's China policy of late. Just months ago, it offered vaccines in exchange for diplomatic recognition. Also, even if a trade agreement never materializes, China will have effectively signaled its commitment to continued economic engagement with the bloc and its individual members. Argentina has been especially committed to relationship-building with China of late, with three deals announced in the past few weeks alone."

A Ignacio Bartesaghi, dean of the business studies department at the Catholic University of Uruguay: "China has become Mercosur's number-one trading partner, as a key buyer of primary and agroindustrial goods. It is also the main supplier of industrial and technological products to the countries of the region. The relationship with China extends beyond trade, and it has gained ground in various areas such as investment, financing and cooperation. Mercosur is currently debating what role the Asian superpower will play in strategic matters such as 5G technology and investments in logistics and port infrastructure. China has also provided a significant number of Covid-19 vaccines. Despite this close relationship between China and the bloc, which comes with the signing of dozens of agreements and memorandums in recent years, the possibility of signing a joint free trade agreement (FTA) does not seem to be on the agenda. Brazil's Bolsonaro has taken a geostrategic position in favor of the United States (although 30 percent of its exports last year went to China); Argentina follows a protectionist policy that does not favor opening the market; and Paraguay maintains diplomatic relations with Taiwan. Uruguay is the only Mercosur country with

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a certain possibility of advancing toward an FTA. However, Mercosur's current rules limit a bilateral agreement between Uruguay and China, which is why the flexibility to enable this path is currently being debated among member countries. Advancing in this direction would allow Uruguay to improve its access conditions with the Asian country, where it is currently competing at a disadvantage to a significant number of other economies that have preferential tariffs in the Chinese market."

A **Thomas O'Keefe, president of Mercosur Consulting Group:** "Ever since China became a member of the WTO at the dawn of the 21st century, the country has become an increasingly important trade partner for the four core Mercosur member states as well as a significant source of investment capital and loans. That relationship is complicated, however. While China is now the number-one market for Brazilian and Uruguayan exports (and number two for Argentina), this is almost exclusively primary commodities with little value added. In addition, Chinese manufactured exports have battered the Argentine and Brazilian shoe, textile and toy industries (among others) for years. Hence, one explanation why a China-Mercosur free trade agreement has never been seriously broached in the past. Another important reason is that Paraguay is the last South American nation that still has formal diplomatic relations with Taipei instead of Beijing. Whether China can negotiate a bilateral agreement with individual Mercosur countries depends on Uruguay's current efforts within the trade bloc to abandon its original common market goal. Bilateral trade deals are currently not permissible given Mercosur's Common External Tariff (even if it is riddled with numerous exceptions). Given that the absence of a free trade agreement has not prevented China's dramatic rise in economic importance among the Mercosur countries underscores that a China-Mercosur agreement is not an imperative. If it were to happen, it would be more for political reasons, to underscore that the United States is no longer a hegemon in South America's Southern Cone."

A **Renata Amaral, adjunct professor and co-director of the certificate program on the WTO and U.S. trade law at American University's Washington College of Law:** "According to a Mercosur resolution, any trade accord negotiated by Mercosur countries that involves tariff preferences needs the approval of the all the member states to be negotiated. There was always a sense that any negotiation of the bloc with China would face great resistance from the industrial sector—which does not have competitiveness to face the Chinese industry—but that it would benefit the agricultural and mining commodities sectors, for example. An individual negotiation with Mercosur countries separately would be a better (and easier) option for China, but currently, the rules of the bloc do not allow for bilateral negotiations, even though Brazil, Uruguay and Argentina have shown that interest in the recent past. The trade exchanges within Mercosur countries are very important, especially for Argentina and Brazil, so it is not likely that the bloc will be dismantled. What could happen is that the bloc agrees on punctual waivers for specific agreements that one country or another wishes to pursue. The next pro tempore presidency, starting in July, is led by Brazil, and that option may come to the table."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at **gkuleta@thedialogue.org**.

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