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THEDIALOGUE

FEATURED Q&A

Is the Mercosur Trade Bloc Headed for a Breakup?

Uruguayan President Luis Lacalle Pou's government is seeking to negotiate its own free trade agreements, which could threaten the Mercosur trade bloc. // File Photo: Uruguayan Government.

Q Uruguay's eagerness to seek trade agreements outside Mercosur led to criticism from the bloc's other members—Argentina, Brazil and Paraguay—as leaders of the four countries met in early December in Montevideo. Uruguayan President Luis Lacalle Pou said his country must "open up to the world," while Argentine Foreign Minister Santiago Cafiero referred to Uruguay's attempts by saying they could "lead to a breakup" of Mercosur. Why does Uruguay want to negotiate trade deals outside of Mercosur, and how would the trade bloc be affected if it does? Which trade partners is Uruguay considering for new deals, and will it achieve such agreements? What political forces are influencing the situation?

A Thomas Andrew O'Keefe, president of Mercosur Consulting Group Ltd.: "It's the epitome of chutzpah for Argentina and Brazil to accuse Uruguay of undermining Mercosur's common external tariff if Montevideo negotiates trade agreements bilaterally with countries outside the trade bloc. For decades, governments in Buenos Aires and Brasília have gutted the common external tariff with exceptions when it suits their interests. Accordingly, Uruguay is within its sovereign rights to negotiate a free trade agreement on its own if its Mercosur partners refuse to also do so. In this particular case, Uruguay is primarily interested in sealing a deal with China, its largest trading partner outside Mercosur. That may explain the surprising opposition to Uruguay's move emanating from Paraguay, the only South American country that still maintains diplomatic relations with Taipei and not Beijing. Should Uruguay succeed in signing an accord with China,

Continued on page 3

TODAY'S NEWS

POLITICAL

Wife, Children of Peru's Castillo Arrive in Mexico

The wife of ousted Peruvian President Pedro Castillo and the couple's two children arrived Wednesday in Mexico, a day after President Andrés Manuel López Obrador's government granted them asylum.

Page 2

BUSINESS

Venezuelan Parties Seeking to Take Control of Citgo

Venezuelan opposition parties are seeking to take control of oil refiner Citgo and stop Juan Guaidó's interim government from extending its mandate for an additional year.

Page 3

ECONOMIC

Brazil's Congress Raises Spending Cap by $28 Billion

Brazil's Congress raised a government spending cap by $28 billion, a move that will allow incoming President Luiz Inácio Lula da Silva to fund spending promises.

Page 2

Lula // File Photo: Facebook Page of Luiz Inácio Lula da Silva.

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POLITICAL NEWS

Wife, Children of Peru's Castillo Arrive in Mexico

The wife of ousted Peruvian President Pedro Castillo, Lilia Paredes, and their two children arrived in Mexico on Wednesday, a day after Mexico's government granted asylum to the family members of Castillo, Bloomberg News reported. Castillo himself remains in jail in Lima, and a judge last week ordered that he be held for up to 18 months as he is investigated on rebellion charges, which he denies. Mexican President Andrés Manuel López Obrador, who has criticized the Peruvian Congress' Dec. 7 removal of Castillo from office after he unsuccessfully attempted to dissolve the legislative body and rule by decree, announced the family members' arrival in Mexico during his daily news conference. Mexico's ambassador to Lima, Pablo Monroy, departed Peru on the same plane as Castillo's family members after Peru expelled him over what Peru's government described as "repeated statements by that country's highest authorities about the political situation in Peru," an apparent reference to López Obrador, BBC News reported. López Obrador said Wednesday that Mexico would maintain diplomatic relations with Peru, Reuters reported. "We are not going to expel anybody," he said. López Obrador added that Peru's decision to expel Monroy reflected a choice by Lima "in favor of repression and not to seek an exit to Peru's conflict through dialogue and the democratic method of convoking elections as soon as possible," Bloomberg News reported. On Tuesday, Peru's Congress tentatively approved a plan to move up elections to April 2024, the Associated Press reported. The vote for president and Congress had originally been scheduled for 2026. A two-thirds majority of Congress must approve the change in its next legislative session in order for it to be ratified. President Dina Boluarte, who was sworn in after Castillo's ouster, backs the plan. Also on Wednesday, Boluarte tapped her defense minister, Alberto Otarola, as her prime minister, Reuters reported. Otarola's appointment drew criticism from leftist legislators amid deadly protests that have happened in Peru since Castillo's removal from office. "Without any remorse, today Alberto Otarola, one of the main politicians responsible for the deaths of 26 Peruvians, is sworn in as the new premier," said Sigrid Bazan, a member of Congress. [Editor's note: See related **Q&A** in the Dec. 9 issue of the Advisor.]

ECONOMIC NEWS

Brazil's Congress Raises Government Spending Cap

Brazil's Congress on Wednesday raised a government spending cap by $28 billion, a move that will allow incoming President Luiz Inácio Lula da Silva, who takes office Jan. 1, to fulfill campaign promises to boost welfare and infrastructure spending, the Financial Times reported. A supermajority of lawmakers voted in favor of lifting the cap, which limits increases in government spending, by one year. A large portion of the extra spending will pay for Lula's promise to maintain a the 600-real ($115) per month Bolsa Familia cash transfer program, which is received by 20 million of the poorest households, the newspaper reported. Congress' move and Lula's spending plans have shaken business owners' confidence in Brazil's economy and has led to recent plunges in the country's stock market. "I haven't got a good feeling about this—a bloated state just creates higher costs for those of us who pay taxes," Raimundo Souza, who owns a small construction business in São Paulo, told The Wall Street Journal. Earlier this month, Lula announced that Fernando Haddad, a former mayor of São Paulo, would be his economy minister. Investors had been hoping for a more business-friendly appointment. "Lula made one request," Haddad told reporters last week, The Wall Street Journal reported. "The economy minister needs to have a mission in this country: to put the poor back in the budget and tax

NEWS BRIEFS

Top U.N. Official Urges Consideration of Haiti's Request for Armed Force

U.N. Deputy Secretary-General Amina Mohammed on Wednesday called on countries to urgently consider Haiti's request for an armed force to restore stability in the Caribbean nation. Mohammed told the U.N. Security Council that countries should "give urgent consideration" to the request from Haiti's government, which is grappling with gangs that have taken over parts of the country's territory, as well as a cholera outbreak.

Colombian Government Nearing Purchase of French Fighter Jets

Colombia shortlisted a French bid to sell it 16 Rafale fighter planes for as much as $3.15 billion, the Colombian government said on Wednesday, Reuters reported. The South American country is seeking to update the Israeli-made Kfir aircraft it acquired in the 1980s to better defend its territory and fight organized crime. The United States and Sweden also offered Colombia deals for F-16 and Gripen aircraft, respectively.

El Salvador to Receive $150 Million Loan From CAF for Education

El Salvador secured a $150 million loan from Latin American development bank CAF to bolster its education system, the lender said in a statement on Wednesday, Reuters reported. The loan, which is the country's first from CAF, will go toward equipment, training and closing the digital gap in Salvadoran schools. "We are a strategic ally for the development of countries with comprehensive programs like this," CAF Executive President Sergio Diaz-Granados said in the statement, adding that the Covid-19 pandemic created an "education emergency" in the country.

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the rich," he said. [Editor's note: See **Q&A** about Lula's plans for Brazil's economy in the Nov. 18 issue of the Advisor.]

BUSINESS NEWS

Venezuelan Parties Seeking to Take Control of Citgo

Venezuelan opposition parties are seeking to prevent Juan Guaidó's interim government from extending its mandate by another year and take control of the boards in charge of Citgo Petroleum, spokespeople from the main opposition parties said Wednesday, Reuters reported. Citgo, a subsidiary of state-run oil company PDVSA, is the country's most valuable asset abroad, and the Houston-based board was appointed in 2019 by Guaidó. Guaidó called on Congress for a special session on Thursday to extend his mandate, but opposition political parties are seeking to block the move while proposing the creation of a new panel of parliament-appointed members to take charge of Venezuela's foreign assets, including Citgo. Guaidó was appointed as Venezuela's interim president following disputed 2019 elections that saw the re-election of President Nicolás Maduro. But while the United States and some other countries still recognize Guaidó as the country's interim leader, his international support has waned. Last year, European Union member states stopped recognizing him as interim president, and on Oct. 6, 19 member nations of the Organization of American States, including Peru and Argentina, voted to remove his envoy from the multilateral body. "De jure recognition of Guaidó did not create a de facto presidency. Guaidó achieved no institutional or political authority in Venezuela," Julia Buxton, British academy global professor at the University of Manchester, told the Advisor in a **Q&A** published Oct. 21. "Guaidó has made no ground over the years, straddling a divided opposition and constantly looking to leverage international rather than domestic support," she added.

FEATURED Q&A / Continued from page 1

Argentina and Brazil may feel compelled to follow suit. Such a development would force the European Union to ratify its long-delayed trade agreement with Mercosur. Hence, Uruguay's unilateral actions may, in the long run, prove beneficial for Mercosur's future as a viable trade bloc."

Allison Fedirka, director of analysis at Geopolitical Futures: "Uruguay's interest in outside markets reflects Mercosur's shortcomings, which in turn have driven the slow demise of the trade bloc long before Uruguay floated its ambitions for outside trade deals. The bloc never achieved its full economic, common market ambitions and, consequently, it has become more political in nature. Mercosur has been dying a slow death for years, making the 'breakup' of the bloc a mere formality and a question of time. Economic forces are the predominant drivers of the global system and country behavior at this point in time. This has been the case since 2020, and Uruguay is no exception. However, Uruguay's economy is in decent shape compared to its Mercosur neighbors. Additionally, the government has limited means for spurring the needed levels of economic recovery. These factors make increasing foreign trade with markets outside Mercosur very attractive. In particular, Uruguay seeks better market access to Asian and North American markets (especially China and the United States). Whether or not Uruguay achieves such trade deals rests primarily with Montevideo and the foreign markets with which it is negotiating. (Mercosur has little power to stop Montevideo.) All trade deals take time, so while Uruguay could reach agreements with Asian and North American partners, it will not occur overnight."

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>
> **— Allison Fedirka**

Tara Hariharan, managing director of global macro research at NWI Management LP: "After its founding in 1991, Mercosur's internal trade rose tenfold to more than $41 billion by 2010, but it has boasted little progress since then. The bloc is not a free-trade zone; its members are unevenly matched in size, and the pandemic has exacerbated long-term economic and political instabilities in each country. Mercosur's trade ties with the United States have stagnated, and a 2019 pact with the European Union has stalled over environmental standards. Uruguay now wants a bilateral free trade agreement with China; it was the first Mercosur nation to join China's Belt and Road Initiative, and China is Uruguay's top trade partner, buying 30 percent of its exports (versus Mercosur at 26 percent). Seeking ever more regional influence, China would welcome an agreement with Mercosur and not just Uruguay. However, the bloc proscribes unilateral negotiations without joint consensus, and Brazil, Paraguay and Argentina oppose Uruguay's efforts; in November, they threatened potential countermeasures, and December's Mercosur summit ended without a joint statement. Brazil and Argentina (despite the latter joining the Belt and Road Initiative) are wary of Chinese imports flooding their markets, and Paraguay, thanks to its links to Taiwan, has no diplomatic ties with China. Since the early 2000s, Uruguayan governments on the left and right have pursued intra-Mercosur free trade and the liberty to forge bilateral deals. While some Uruguayan firms and labor unions fear Chinese competition, the public generally favors a China free trade agreement. However, Uruguay not only risks Mercosur's goodwill by courting China,

Continued on page 4

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FEATURED Q&A / Continued from page 3

it faces long-term challenges from rising U.S.-China tensions and decoupling trends."

Fausto Spotorno, director at UADE Business School and OJF & Asociados Consulting: "Mercosur was originally an attempt to create a big free trade area in Latin America. It was an attempt to pursue free trade in a region dominated by protectionism, capital controls and other restrictions to international trade and investments. However, Mercosur failed to evolve from its original pursuit of free trade and, as a consequence, became a limitation to its members as the world became more integrated and open. In this sense, the most important rule is the one that forbids any of its members to negotiate a free trade agreement by itself with outside countries. In addition, Mercosur's common external tariff did not change much from its inception in 1991, and, in many cases, external tariffs have become extremely high by today's world standards. This is particularly problematic for Uruguay, which is a small economy that could benefit from a more open approach to international trade. There is a consensus among many economists and other experts that Mercosur needs a more open and flexible approach. However, there is no political consensus about this, and the Uruguayan government may feel that if it doesn't push harder, the political forces in Argentina and Brazil will need a long time to form the necessary consensus, because they do not see it as a priority. Uruguay wants a more open economy. That is something that its partners need to understand, and they also need the same thing. But internal political needs have delayed this discussion."

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The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta.

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