

## **Mercosur-EU FTA Discussions: The Venezuelan Question**

*By Peter Miraglia,*

### **Introduction**

On Wednesday, September 14, 2016, the founding members of the South American free-trade bloc, Mercosur, officially announced that Venezuela would be barred from assuming the organization's six-month rotating presidency. Instead, a temporary interim team, consisting of appointed officials from Paraguay, Argentina, Brazil, and Uruguay, will lead the trade organization. These four founding members also threatened to suspend Venezuela if the country fails to comply with the organization's regulations on free trade and human rights by December 11.<sup>i</sup> In response, Venezuelan foreign minister, Delcy Rodriguez, announced that her country has rejected the announcement, while also accusing the other member states of attempting to destroy the trade body.<sup>ii</sup>

The decision to block Venezuela's rotation as president wields great influence in the recently revitalized free trade agreement (FTA) discussions between the European Union (EU) and the Mercosur. As explained by Roberto Moritán, the former Argentinian Deputy Foreign Minister, "The European Union has condemned Venezuela for its punitive human rights violations. President Maduro may not be the best face for Mercosur right now".<sup>iii</sup> Recent rhetoric represents a change in the economic plan of many Latin American countries. Instead of emphasizing the commodity trade with China, the bulk of Latin American governments are now focusing on regional integration and the expansion of private sector markets.<sup>iv</sup>

In the past year, the Venezuelan government has presided over little internal progress, however there have been external efforts, primarily from the Vatican and UNASUR, to mediate the conflict. Installed on October 30, the negotiation table between the United Socialist Party and the opposition in Venezuela was the culmination of six-months of UNASUR peacemaking efforts.<sup>v</sup> On November 11, President Maduro's administration will be meeting with its opponents, the National Assembly, to discuss an easing of tensions. This glimpse of progress has coincided with recent political discussions with the Vatican's Archbishop Claudio Maria Celli and U.S. senior diplomat, Thomas Shannon, in Caracas.

Furthermore, the governments of new Brazilian president, Michel Temer, and new Argentinian president, Mauricio Macri, support Mr. Moritán's statement, as both leaders hold pro – business platforms, diverting Mercosur away from its former leftist direction.<sup>vi</sup> Together, Macri and Temer symbolize an important economic shift in Latin America as they control the region's two largest economies. Ultimately, the current members of Mercosur should refrain from suspending Venezuela, regardless if they comply with regulations by December 11, because the trade bloc should instead focus on achieving internal stability. Therefore, the trading body should avoid from engaging in the neoliberal trade agenda that is responsible for the regional economic inequality.

### **MERCOSUR Background**

Established by the Treaty of Asunción in 1991, Mercosur was intended to create a sub-regional common market and customs union, stretching from the Equator to Antarctica, to compete with other major trading blocs, such as NAFTA, the EU, or CAN (The Andean Community).<sup>vii</sup> In creating the Southern Common Market, the founding members eliminated their trade barriers to encourage cross border investment and trade, the free movement of labor and capital, adoption of a common external tariffs, and further economic integration of macroeconomic policy.<sup>viii</sup> Although experiencing numerous financial crises and failing to develop into the “seamless single market” that its founders had idealized, Mercosur

has still spurred an increase in intra-bloc merchandise trade from \$10 billion USD in 1995 to \$88 billion USD in 2010.<sup>ix</sup>

The flourishing of Mercosur members has attracted the attention of the members of the Andean Community (CAN), a functioning trade bloc since the signing of the Andean Pact in 1969.<sup>x</sup> After merging with CAN to form UNASUR (Union of South American Nations) in 2008, Mercosur considered expanding its membership. A former CAN member, Venezuela, switched over to Mercosur in 2012, following Paraguay's mandated suspension from the trade bloc due to the controversial constitutional coup against former President Lugo in 2012. Deemed a "coup against democracy" and "a blow against popular will", Lugo's impeachment infringed upon the Democratic Clause of Mercosur, which warranted a suspension until democracy was sufficiently restored in the country.<sup>xi</sup> As the Paraguayan Congress had continually blocked Venezuelan membership in Mercosur, Lugo's impeachment and his country's subsequent suspension provided the perfect opportunity for Venezuela to join the trade bloc without opposition. However, when the suspension was lifted following the election of Paraguayan President Horacio Cartes in 2013, Paraguay claimed that Venezuela's membership was illegitimate because new members can only be admitted after a unanimous vote, and such a vote should not have occurred during Paraguay's suspension.<sup>xii</sup> Therefore, the stage was set for internal strife within Mercosur, as Paraguay, a founding member of the trade bloc, opposed recently admitted Venezuela.

The revival of discussions with the EU has coincided with the deterioration of the Venezuelan economy, as well as their rotation as president of Mercosur, which has forced the country into a pivotal position. Since the EU has repeatedly expressed its displeasure with a Venezuelan presidency during the FTA negotiations, the other founding members of Mercosur – Brazil, Argentina, and Uruguay – have become hesitant to publically express support for the ailing country. Despite the recent concessions offered by the Maduro administration, Venezuela has aggravated the preexisting faults in Mercosur,

such as internal mistrust, an insufficient legal framework, and lack of commitment by its members. For this reason, along with the popular resistance in Brazil and Argentina against the FTA agenda and the failures of NAFTA, Mercosur countries should abstain from signing this FTA with the EU.

### **Present Situation**

Currently, Mercosur possesses a total population of 292 million people and boasts a combined GDP of \$2.8 trillion, making it the fifth largest economy in the world.<sup>xiii</sup> Despite its growth, Mercosur has stagnated in recent years due to the dynamic exports from East Asia, resulting in a decrease in intra-regional exports. From 1990-1999, Mercosur intra-regional exports grew at an average annual rate of 24.5 percent, which was almost three times the average 8.7 percent rate of growth of exports to non-Mercosur members.<sup>xiv</sup> In 2016, intra-regional exports consist of approximately 15 percent of total exports, while exports to the rest of the world have grown exponentially.<sup>xv</sup> Evidently, in the past decade, Mercosur has looked outward in search of new trading partners and markets. However, while this strategy has been profitable, it has failed to address the intrinsic weaknesses of this free trade organization, which has hindered the real economic progress of its member states.

In addition to gaining Chile, Bolivia, Peru, Colombia, and Ecuador as associate members after its merger with CAN and granting Bolivia full membership in 2015, Mercosur has also signed FTAs with Israel, Egypt, the State of Palestine, and Lebanon in recent years.<sup>xvi</sup> Building off this momentum in signing trade deals, in 2010, Mercosur's executive body, the Common Market Group, rekindled discussions with EU representatives on the creation of a FTA between the two trade blocs. Since then, there have been nine additional rounds of negotiations between the two groups, all building upon the 1995 Framework Cooperation Agreement that intended to "strengthen existing relations between the parties and to prepare the conditions enabling the creation of an interregional association, which will cover trade and economic matters."<sup>xvii</sup> Justified by this document, EU foreign direct investment (FDI) in

Latin America has grown from €130 billion in 2006 to €280 billion in 2012, while EU exports to Mercosur members have doubled from €28 billion in 2007 to €57 billion in 2013.<sup>xviii</sup> Despite this increase in trade, there has been an ongoing anti-free trade movement in Brazil and Argentina. Although interest in a FTA with the EU is peaking within the governments of these two Mercosur members, some EU parliamentarians are having second thoughts due to the political turmoil in trade bloc. Together, this internal popular resistance and the ongoing humanitarian crisis in Venezuela have made the actualization of this FTA increasingly difficult.

This past August, the president of the European Parliament, Martin Schulz, made a tour across South America, holding meetings with the heads of state from Argentina, Colombia, and Brazil. According to former Argentine Foreign Minister, Jorge Taiana, the private meeting in Buenos Aires focused on “the possibilities of integration of the EU and Mercosur.”<sup>xix</sup> Moreover, Mr. Taiana’s comments reflect the announcement issued by Argentinian President Mauricio Macri during his state visit to Belgium, where he called for “a more firm attitude from the EU in order for the agreement to be signed in a few years.”<sup>xx</sup> The Macri administration has placed an increased emphasis on trade with the EU, compared to that of the Kirchner Administration, which has been met with domestic protests. Reflective of his shift to the West, President Macri has also condemned the mounting crisis in Venezuela; “I am critical of the populist movements because we have seen it in Argentina. What they do is raise expectations that do not coincide with reality and that leads to frustration, violence, and destroys the future.”<sup>xxi</sup> His criticism of populism in Latin America undermines the solidarity that Mercosur members should practice with each one another. It is worth mentioning that in recent weeks, the Maduro Administration has made progress towards domestic stability, including the release of five political prisoners on November 1.

During his stop in Bogota, Colombia, Martin Schulz lamented on the dire situation in Venezuela,

“What we see in Venezuela is that large majority of the population suffers and that a country with so much wealth has a population that has to fight everyday for survival.”<sup>xxii</sup> Schulz’s stance on Venezuela reflects the sentiment shared by a number of EU officials, some of whom are becoming skittish towards a deal with Mercosur due to the perceived socio-political crisis in Venezuela. From the EU perspective, the current Venezuelan financial situation has resulted in conditions that have enabled human right abuses and the continued turmoil in Venezuelan democracy. Although it seems that the EU’s participation is contingent upon the assurance that democratic values will be upheld within their borders, the other Mercosur members should abstain from criticizing their struggling neighbor and offer resources and support instead.

On October 12<sup>th</sup>, following weeklong discussions between Mercosur and EU officials in Belgium (excluding Venezuela), Argentine Minister of Commerce Miguel Braun issued a statement, in which he claimed, “in terms of negotiations, I am optimistic we can move forward at a good pace, maybe one or two years.”<sup>xxiii</sup> This constituted as his response to Spanish Secretary of State for Trade Jaime García-Legaz, who stated that he was convinced that the “political will” on both sides would seal the Mercosur-EU FTA by the end of 2017.<sup>xxiv</sup> Although these estimates are very generous, they provide great examples on the levels of enthusiasm for this deal on each side. As the EU is Mercosur’s first trading partner, accounting for 20% (equivalent to \$120 billion USD) of Mercosur’s total trade in 2013, this FTA would benefit Mercosur members because the EU provides another large market for the exportation of Latin American agricultural products and raw materials.<sup>xxv</sup> While this FTA would greatly advance the private interests of the wealthy and corporations, it would increase the exploitation of those who have been dispossessed by the West’s free trade agenda in the past.

## **Conclusion**

Despite lying dormant since 2004, the recent political changes in Mercosur countries, especially

in Brazil and Argentina, have made the Mercosur-EU FTA a main priority once again. At the recent meetings in Brussels, Miguel Braun, stated “there is now a core agreement that Mercosur has to negotiate significant trade deals”, while Daniel Raimondi, Under-Secretary for Economic Integration in the Americas and Mercosur within the Foreign Affairs Ministry of Argentina, added, “we are more synchronized regarding foreign relations of Mercosur, nowadays compared to the situation of last year for instance.”<sup>xxvi,xxvii</sup> Referring to the new administrations of Michel Temer in Brazil and Mauricio Macri, Raimondi is correct in assessing that the foreign policies of Mercosur member states are aligned for the first time in years. By sharing a similar capitalistic, pro – business platform, Michel Temer and Mauricio Macri have the potential to increase cooperation between the trade bloc’s first and second largest economies, which would set the foundation for other members to strengthen regional trade integration.<sup>xxviii</sup> Despite the synergy between these two leaders, the anti-FTA popular resistance movements in their respective countries will make it difficult to secure any free trade agreements.

It seems apparent that Venezuela’s profound economic crisis is not confined to its borders, and its repercussions are spreading throughout Latin America.<sup>xxix</sup> Following mediation attempts by UNASUR and the Vatican, the recent visit of a US diplomat, Thomas Shannon, and the incumbent administrations scheduled meeting with the opposition on November 11, it is the prime time for Mercosur member to fix the internal faults of the organization. Mercosur should stand with Venezuela come December 11, and help country fully comply with the Democratic Clause of Mercosur. In the past, the “western ideals” promoted by Europe and the United States has resulted in the subordination of Latin American peoples, by way of slavery, genocide, colonialism, and client states, to foreign corporate interests. By sacrificing Venezuela for a FTA with the EU, the Mercosur member states will not improve regional stability and integration, and instead will enable more exploitation at the hands of the EU and United States.

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