Mercosur – EU: Largest free trade zone in the world

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The G20 summit had a difficult start at the end of June: The US and China officially put their trade negotiations on hold, the conflict over the nuclear agreement with Iran escalated again, and many questions regarding the Brexit remained unresolved. Rarely has the group of the 20 most important industrial nations, and by extension the world economy, had to face so many serious challenges simultaneously. Investors were not the only ones to look forward to the meeting's start in Osaka, Japan.

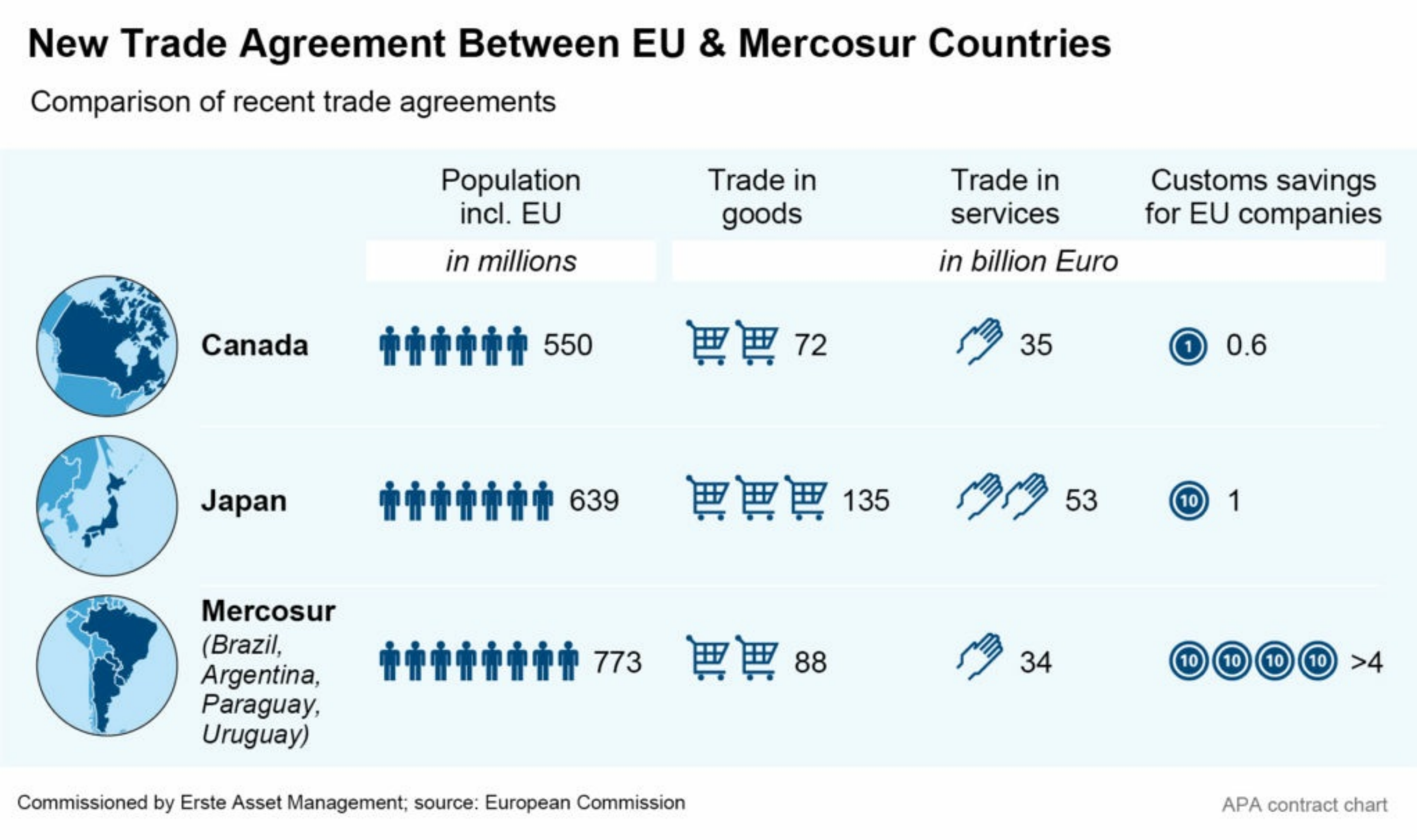
Pleasant surprise in a tense environment

The weekend did indeed start with a breakthrough, but the good news came from an unexpected direction – not Japan, but rather Brussels and Buenos Aires: The European Union and the South American trade bloc Mercosur announced the formation of the world's largest free trade zone. After 20 years of negotiations, a political agreement on abolishing tariffs and other trade barriers has been reached. Outgoing EU Commission President Jean-Claude Juncker spoke of a "historic moment".

The agreement between the EU and Mercosur countries Argentina, Brazil, Paraguay and Uruguay is intended to strengthen the exchange of goods and save companies billions. The EU Commission estimates that the agreed treaty will save European companies EUR 4bn in customs duties.

Potential in commodity and capital markets

According to the Commission's data, exports by EU companies to the four Mercosur countries amounted to around EUR 45bn in 2018, while exports in the other direction amounted to EUR 42.6bn. The EU is already the main trading and investment partner for Latin American countries. Mercosur mainly exports food, beverages and tobacco to the EU. From there, machines, transport equipment, chemicals and pharmaceutical products are exported to Argentina, Brazil, Paraguay and Uruguay. The two regions also engage in lively trade on the capital market: the cumulative volume of capital from the EU increased from EUR 130bn in 2000 to EUR 381bn in 2017. Conversely, in 2017 investors from the Mercosur states held investments to the tune of EUR 52bn in the EU.



Further steps and scepticism

Shortly after the "historical" agreement was published, resistance to it began to take shape. While sectors such as the automotive industry were satisfied with the planned changes, other industries such as farmers fear increased competition from beef, poultry and sugar from South America. With its less strict regulations for environmental protection, crop protection and the use of antibiotics, consumer protection agencies and environmentalists were quick to object: "France is currently not prepared to ratify the agreement," a government spokeswoman said on the French radio last week. Before the agreement can be put into effect, all EU member states as well as the EU Parliament, among others, must approve it, which will most likely require renegotiations and additional agreements in some areas. Seen thusly, the largest free trade zone in the world has not yet reached its goal. However, the milestone of the agreement can be considered a positive signal in a conflict-laden environment.

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