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## **THE OPPENHEIMER REPORT**

# **Uruguay's overture to U.S. shakes up bloc**

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**PUNTA DEL ESTE**, Uruguay -- Tiny Uruguay's apparent decision to start free trade talks with the United States has created economic and political turmoil in this part of the world, where leftist governments had recently pledged to temporarily halt trade negotiations with Washington.

Uruguay's decision to go it alone would deal a serious blow to South America's Mercosur common market, founded 14 years ago by Brazil, Argentina, Paraguay and Uruguay.

### **NO TALKS**

Under the bloc's rules, member countries cannot individually negotiate free trade deals with third parties, and both Brazil and Argentina -- Mercosur's biggest members -- have suspended trade negotiations with Washington, citing its reluctance to lift agricultural subsidies.

Furthermore, Uruguay's move would drive a wedge among South America's leftist governments, which until recently touted their ideological bonds as a great opportunity to increase regional cooperation. Last month, Mercosur welcomed Venezuela, which has vowed not to sign a trade deal with the United States under any circumstances, as a full member.

"We're bargaining with all sides," Uruguay's agriculture minister, José Mujica, a former Tupamaro guerrilla and one of the most powerful members of the government, said in a telephone interview. "We must sign trade agreements with the United States, China and as many countries as possible, without turning our backs to the [South American] region."

When Uruguay's President Tabaré Vázquez was inaugurated nearly a year ago as his country's first leftist leader in recent history, tens of thousands of ecstatic Uruguayans took to the streets to celebrate what they saw as a new era of greater political distance from Washington and closer ties with leftist-ruled Brazil and Argentina.

But earlier this month, Uruguay's economy minister, Danilo Astori, made headlines announcing the possible start of free trade talks with Washington, and his fellow Cabinet minister, Mujica, was quoted as stating that Mercosur's commitments "aren't worth a damn."

Argentina and Brazil -- as well as some members of the Uruguayan Cabinet -- immediately cried foul, but Vázquez has so far backed his economy and agriculture ministers and is reported to have appointed a commission to start trade talks with the Bush administration.

## **URGING NEIGHBORS**

Judging from what I heard from Uruguayan officials and foreign diplomats here, Uruguay's plan is to try to get its bigger neighbors to start negotiations with Washington as a bloc. If that doesn't happen, it will demand a waiver to be allowed to go it alone. And if that doesn't work, Uruguay may defy Mercosur and start negotiations on its own.

Uruguay, a country of only 3.5 million sandwiched between Argentina and Brazil, says its bigger neighbors are protecting their domestic producers, which is badly hurting Uruguayan exports.

Uruguay's exports to its bigger Mercosur partners have fallen from more than 70 percent of its total exports in the late 1990s to 23 percent now, they say. Meantime, Uruguay's exports to the United States have skyrocketed to 24 percent of its total exports, they say.

"The [regional] integration mystique is losing steam," says Didier Opertti, Uruguay's former foreign minister and current head of the Latin American Integration Association. After an explosion of trade in the '90s, Mercosur's internal trade has fallen from \$40 billion in 1998 to \$21 billion in 2005, he said.

Some analysts see a contradiction between South American governments' politics and their vows to deepen their regional free trade commitments.

"The economically protectionist and politically nationalist nature of these governments creates problems: While they share a common anti-imperialist stand, their economic nationalism leads to tensions and conflict within their bloc," says Carlos Montero, editor of Síntesis Económica Mercosur, [www.sintesis.org](http://www.sintesis.org).

Earlier this week, I asked Paraguay's foreign minister, Leila Rachid, whether Paraguay would follow Uruguay's lead, as many Paraguayan industrialists are demanding. Rachid's answer: "Paraguay is fully committed to continue being a Mercosur member. That does not mean that we are happy with the way Mercosur is working."

## **POLITICAL ISSUES**

My conclusion: Mercosur has increasingly become a political -- rather than economic -- bloc, especially since its recent decision to incorporate Venezuela. Unless it begins to seriously reduce internal trade barriers and seek free trade deals with much bigger markets in North America, Europe and Asia, it will soon begin losing member countries and will become an irrelevant bureaucracy.