

The TPP Drives Mercosur to Explore New Markets

 in China and the EU

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ABSTRACT

Just 3 months after the TPP’s signing, two of the largest trading blocs in the world—the Common Market of the South (Mercosur) and the European Union (EU)—formally exchanged free trade proposals. [[1]](#footnote-1) The two blocs have been negotiating the free trade agreement (FTA) for 25 years, since the founding of Mercosur in 1991. The timing of the proposal exchange between Mercosur and the EU is extremely significant. The incipient TPP poses large economic threats to Mercosur member countries—reduced exports, high non-tariff barriers to trade with TPP countries, and diminished potential for foreign direct investment (FDI). Mercosur, currently the world’s fourth largest trading bloc, is unlikely to idly accept these threats.[[2]](#footnote-2)

In this paper, we argue that the TPP will reduce trade opportunities for Mercosur. Mercosur will face increasingly competitive markets for its exports to Asia and throughout the world as it loses market access and international competitiveness to TPP countries. Additionally, Mercosur nations will become less attractive for Foreign Direct Investment (FDI).

Similarly, China will face increased competition in world markets due to the TPP. It is well documented that one of the United States’ aims in creating the TPP was to balance China in global markets by excluding it from the deal. The TPP will also surpass the EU to become the world’s largest free trade agreement (by GDP) once it is implemented. Both regions may therefore become more open to FTAs, aiming to restore their international economic competitiveness. Thus, Mercosur may view the EU and China as new markets with the potential to replace the export market it will lose from the TPP.

1. ##  “EU-Mercosur Joint Communiqué on Exchange of Negotiating Offers”, *European Commission,* May 11, 2016, Accessed July 27, 2016,

http://trade.ec.europa.eu/doclib/press/index.cfm?id=1497 [↑](#footnote-ref-1)
2. Joanna Klonsky, Stephanie Hanson, Brianna Lee, “Mercosur: South America’s Fractious Trade Block”, *Council on Foreign Relations,* July 31, 2012, Accessed June 28, 2016, http://www.cfr.org/trade/mercosur-south-americas-fractious-trade-bloc/p12762#p5 [↑](#footnote-ref-2)