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Uruguay Considering a Free Trade US

by LADB Staff

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Uruguay's government has expressed an interest in negotiating a free trade treaty (FTA) with the US government. The government completed an investment-protection treaty with the US late in 2005, part of the tiny nation's efforts to integrate economically with the US market and with regional partners like Venezuela. Neighboring countries that are fellow members in the Southern Cone Common Market (MERCOSUR), however, have expressed serious concerns that Uruguay would unilaterally open the South American trade bloc to US entry.

US-Uruguay investment treaty ratified at end of 2005

Uruguay took a first step toward tightening bilateral relations when it completed an investment treaty with the US in December 2005. The process of working out the treaty exposed divisions in the Cabinet of President Tabare Vazquez, with centrist Economy Minister Danilo Astori and his moderate allies advocating the treaty and socialist Foreign Relations Minister Reinaldo Gargano along with union and political sectors like the communists opposing.

Opposition-party groups like the Partido Nacional (Blanco) and Partido Colorado criticized opponents of the treaty, as well as the efforts of official party Frente Amplio (FA) to coordinate with MERCOSUR to find a common position on external treaties. The two countries signed the bilateral treaty at the IV Summit of the Americas in November 2005, while groups opposing US President George W. Bush and aggressive trade policies protested outside (see NotiSur, 2005-12-02).

Gargano joined Thomas Shannon, US assistant secretary of state for Western Hemisphere affairs, in signing the document, which needed Uruguayan congressional approval before the end of 2005. It was signed previously by adjunct US trade representative Peter Algeier and Isaac Alfie, the outgoing economy minister under former President Jorge Batlle (2000-2005) in October 2004. The Summit of the Americas signing was meant to affirm the two governments' commitment to the treaty, called the US-Uruguay Bilateral Investment Treaty (BIT). The Senate approved the treaty in December, but not before fierce controversies and a noisy protest by members of the Partido Comunista in the Senate hall, while other leftist opponents protested outside. The Chamber of Deputies, with an FA majority, also passed the BIT.

For Uruguay, the US has become the principal importer of Uruguayan products, especially beef. In the first half of 2005, the US purchased about US\$371 million of Uruguayan products, a 40% increase from the same period a year earlier. The US now purchases about 23% of Uruguay's total exports. The US has more than US\$600 million invested in Uruguay, and a number of other enterprises worth hundreds of millions more are underway in the forestry sector.

The US has a strong interest in gaining access to the MERCOSUR trade bloc. Trade negotiations between the group and the European Union (EU) have fizzled (see NotiSur, 2004-10-15 and 2005-09-09), as have US efforts to assemble a hemispheric Free Trade Area of the Americas (FTAA).

Now official-party legislators are hoping to begin solid work toward an FTA with the US, although Vice President Nin Novoa has said there are impediments to making such a deal. "No one doubts how good it would be for the country to have a treaty with the world's strongest economy, but there has to be a counterpart, because an aggressive attitude by some sectors of US industry could displace national activity," he said in a radio interview. Novoa said that agreements would have to integrate public companies properly, adding that there were "concrete impediments," referring to "sensitive products that are protected by congressional law" that need to be opened to competition so that "we have comparative advantages."

Astori's leadership on trade deals with the US and China represents a "modernization" of the economic policies of the FA and the minister says the left "is learning." He points to the highly liberalized Chilean economy as the best example for Uruguay. Astori says he has the backing of the Vazquez government, which swept into power last year after voters showed their disgust for the neoliberal policies of Batlle (see NotiSur, 2004-11-12 and 2005-03-04). But, with a debt burden equal to 90% of its GDP and an unemployment rate of 13%, the Vazquez administration has been hustling to increase foreign investment and job creation.

Relations with other MERCOSUR countries taxed somewhat

Uruguayan Tourism Minister Hector Lescano told Buenos Aires radio in January that the "fabric of MERCOSUR is hurt" and that the bloc "is not going through its best moment." Addressing opposition to the potential US-Uruguay accord, he said his government "always expressed a decided commitment to MERCOSUR and a decided commitment to regional integration," but there needed to be "better balances toward smaller countries" within the bloc.

Brazilian Foreign Relations Minister Celso Amorim said in January that "it would be impossible [for a bloc member] to negotiate in an individual manner" with the US. He made the statement at a press conference with his Argentine counterpart Jorge Taiana. "We weren't informed" about the possible US-Uruguay negotiation, complained Amorim, although he conceded the bloc did need to pay more attention to smaller member countries like Uruguay and Paraguay, which has also been augmenting its relations with the US (see NotiSur, 2005-09-02 and 2006-01-20). "If Uruguay doesn't see the benefits of MERCOSUR, it's because we haven't done enough," said Amorim.

Uruguayan business promoters cannot be pleased with MERCOSUR-Uruguay relations when Argentina is vigorously opposing the construction of two billion-dollar paper mills along a river the two countries share (see NotiSur, 2006-02-10). MERCOSUR is headquartered in Uruguay, but the large economic powers in its membership are Brazil, Argentina, and Venezuela. Paraguay is also a member, with Bolivia, Chile, Colombia, Ecuador, and Peru holding associate-member status.

Bolivia is also seeking to become a full member of MERCOSUR with voting power, as Venezuela recently did (see NotiSur, 2005-12-02). The announcement that Bolivia would be seeking plenary

membership was made by the newly inaugurated administration of President Evo Morales, which is looking for economic support to replace any drawdown of US investment that could occur if Bolivia-US relations degrade (see NotiCen, 2006-01-12 and NotiSur, 2006-02-03).

The status of US-Uruguay talks has become controversial, with Republican US Senator Mel Martinez having to retract comments that FTA talks were very "advanced" on Jan. 12. He said in a later press release that he had been referring to the BIT, not an FTA. Uruguayan Education and Culture Minister Jorge Brovetto said that an FTA was not part of the government's agenda, claiming that signing one was Astori's idea, not government policy.

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