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Uruguay Speeds Up Free-trade Negotiations

by LADB Staff

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Uruguay's President Tabare Vazquez is stepping up efforts to work out a free-trade agreement (FTA) with the US even as various trade-union groups are stepping up their opposition to such a deal and as the president's political popularity slides. The government of Uruguay, frustrated with its role in the Southern Cone Common Market (MERCOSUR), seeks to expand its trade relations not only with the US but also with India and China.

The socialist turns free-trader

Vazquez, cited as an example of Latin America's leftward shift after his electoral triumph in 2005 (see NotiSur, 2004-11-12 and 2005-03-04), and US President George W. Bush agreed in May to deeper ties and talks that could lead to a free-trade pact with Washington. With Bush at his side in the Oval Office, Vazquez announced the setup of a joint technical commission to discuss trade issues an arrangement with the aim of starting formal trade talks later in the year. The US is the biggest trade partner of Uruguay, a small country of 3 million people that is rich in agricultural products.

"We have now also agreed to work to expand, intensify, and strengthen our trade relations," said Vazquez. At the time, he had generally been seen as part of the leftward shift in places like Argentina, Chile, Bolivia, and Venezuela, widely perceived as a backlash against the pro-business policies espoused by the Bush administration. But Vazquez sounded all business after his May meeting with Bush. Bush said the two talked about "extending our commercial relations" and about renewable energy, "a subject that is very dear to my heart and necessary for our country."

Earlier in his visit, Vazquez told the pro-free trade Council of the Americas in Washington that he welcomed foreign investment and noted that his country respected its contractual obligations. That was an apparent reference to Bolivian President Evo Morales' announcement that he was nationalizing the natural-gas industry, a move that sent shock waves around Latin America (see NotiSur, 2006-05-12).

Uruguay took a big first step in negotiating with the US at the end of 2005 when it signed a Bilateral Investment Treaty (BIT) with the US (see NotiSur, 2006-02-17). Trade talks make "strategic sense" for both Washington and Montevideo, said Nelson Cunningham, a Latin American specialist with Kissinger McLarty Associates, a firm that advises companies on political risks. Cunningham said Vazquez needed to strengthen his negotiating position in the paper-mill dispute by affirming his independence from his MERCOSUR neighbors (see NotiSur, 2005-09-16, 2006-02-10 and 2006-07-28). "Coming to Washington where his message is going to be amplified...is a way to strengthen his hand in these negotiations," said Cunningham. He added that the Bush administration also stands to gain from a trade agreement because it would show that the US can reach out to left-leaning governments in the region.

Uruguay-US negotiation shows rift in MERCOSUR

If Vazquez signed a free-trade agreement with the US, it could potentially mean Uruguay's exit from MERCOSUR, although officials from the bloc's various countries have kept in close contact on the issue. The Uruguayan leader has repeatedly criticized MERCOSUR as unhelpful to its smaller members. The group is made up of Argentina, Brazil, Paraguay, and Uruguay, with Venezuela having recently joined. During his campaign for election, Vazquez was critical of free trade and open-market policies espoused by his conservative predecessor, but he has shifted his position amid the conflict with Argentina regarding a nearly US\$2 billion paper-mill investment, the largest ever in Uruguay. The mill is being built on the Uruguayan side of a river that forms the Argentine border.

Uruguay lacks the vast natural resources that allow a country like Bolivia or Venezuela to chart a more independent, frequently anti-US course. It also lacks the economic heft of Argentina and Brazil, which can move more independently thanks to steady GDP growth rates and large industrial bases.

Uruguayan Economy Minister Danilo Astori complained in September that "internal negotiation does not exist within the [MERCOSUR] bloc, what exists are bilateral agreements between Brazil and Argentina that harm the other partners," meaning tiny Uruguay and Paraguay. "In MERCOSUR, there is no free trade," said Astori, speaking at a meeting of the Federacion de Industrias del Estado de Sao Paulo (FIESP). The complaints by Astori echo a traditional split in the MERCOSUR bloc, with Uruguay and Paraguay frequently expressing their resentments about the actions of Argentina and Brazil, which are relatively gigantic powers whose interests often do not coincide well with the smaller countries.

According to the private news group Agencia Estado, there has been a decrease in Uruguayan exports to Brazil and Argentina, which in 2000 represented 40% of Uruguay's total exports and in 2006 only reached 22%. Growth has occurred in sales to the US, which went from 8% in 2000 to 16% in 2006. "It is necessary to go out and look for business, trade, and investments," Astori told FIESP. "We want greater international market presence. In this MERCOSUR is a strategic objective, but we don't want MERCOSUR to be a closed project for Uruguay, a terminal station but rather a platform for launching into the world."

Trade unions fight against deal

Vazquez's pursuit of the US FTA is alienating some sectors within his Encuentro Progresista-Frente Amplio (EP-FA) coalition and angering some trade-union groups. His traditional political opponents criticize his handling of negotiations, but the former governing Partido Colorado launched the idea originally and neither it nor the Partido Nacional appear to be ideologically opposed to a deal. The Partido Comunista (PCU), a member of the governing coalition, launched protests against a visit by assistant US trade representative Everett Eissenstat in August.

Hundreds of PCU loyalists and social-organization members protested the deal on Aug. 10 in downtown Montevideo, chanting, "Yes to Latin American integration, no to FTAs with the US."

But the Movimiento de Participacion Popular (MPP), the Frente Amplio's largest member, and Vazquez's socialist party have rallied behind the negotiations. Splits in Uruguay's left between those who support an FTA and those who oppose may weaken leftist efforts to slow talks down. Juan Castillo, communist leader of the Plenario Intersindical de Trabajadores-Convencion Nacional de Trabajadores (PIT-CNT), says the deal would violate Uruguay's sovereignty.

"We don't want the FTA because the sovereignty of the country is in play," said Castillo. He said there would be "confrontation with the government" if it were signed. But he admitted that the opposition "is not unanimous...there are companeros who have the contrary position." Vazquez has sought to build a Plan de Equidad Social, complementing his Plan de Emergencia Social, which attempts to address poverty in the country through greater social spending. These packages comport more with the image he cultivated as a presidential candidate in 2004, but the question remains as to whether it will be enough to keep the Uruguayan public pleased with his leadership.

Poll numbers in May reflected a decline in the president's public approval, with a decrease of 10 points between February and April in a poll conducted for Uruguayan daily newspaper El Pais. The poll found support for the president at 44% and disapproval levels growing from 18% to 29%, "meaning the end of the honeymoon for the government," wrote El Pais. The paper attributed the drop partially to the pulp-mill crisis. President Vazquez also wants India and China trade opening Vazquez also indicated in August that he would be asking the governments of China and India to set up bilateral commissions to deepen trade relations. He said in a press release that he would invite Chinese and Indian ambassadors to consult with their respective governments on the "possibility of installing bilateral commissions that would study the mechanism or mechanisms that would permit us to improve commercial exchange." Astori said in late August that there had been "concrete advances" in the Uruguay-India trade relations.

On Aug. 29, Vazquez received Indian Ambassador to Uruguay, Argentina, and Paraguay Shri Pratesh Rath to begin studying ways to set up an ambitious trade agreement. The diplomat also met with Astori and congressional officials. Vazquez also met with Chinese Ambassador Wang Xiaoyuan for similar talks.

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