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EU and Mercosur in the Twenty-First Century: Taking Stock of the Economic and Cultural Ties

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Brussels, Belgium, 8th December 2021 - This policy brief examines the latest developments in the EU-Mercosur economic relationship and outlines the existing non-economic relationship in order to contextualise the EU-Mercosur Association Agreement and its potential for strengthening common bonds between both regions.

Trade between the EU and Mercosur is significant, with both regions holding an important place as large markets for each other's exports. Currently, trade between the two is dominated by trade in machinery, agriculture, and chemicals. As relevant as these traditional sectors are, their trade is also increasingly supported by trade in services, which unlike trade in traditional agricultural products such as soya, beef and sugar that are either stable or declining, is rapidly increasing.

In addition to trade, EU and Mercosur economic bonds are also supported by investments. EU member states hold a large stock of investment in the Mercosur countries while investment flows from Mercosur into the EU are also increasing. This increase has been particularly marked in high-tech sectors like R&D and computer software, emphasising again the changing economic relationship between the EU and Mercosur from traditional to advanced sectors.

These trade and investment dynamics are complemented by changes in the EU-Mercosur supply chains. Over the past ten years, the effects one region has on the competitiveness of the other have increased and will continue to do so into the future. The EU is the largest contributor to Mercosur exports, meanwhile Mercosur countries provide the biggest value-added to EU agricultural products.

A primary underlying trend found across all dimensions of the EU-Mercosur economic relationship has been the rise of China. In trade, it takes two to tango, and since 2015, it has been China, rather than the EU, that has risen to become Mercosur's main trading partner. Over the past nine years, the amount of Chinese value-added embedded in Mercosur exports has more than tripled. Moreover, China has ramped up its investment into Mercosur countries, while also receiving increased investments from Mercosur. So, although the EU-Mercosur relationship is changing and bonds have deepened, the EU faces constant competition from China in its relationship with Mercosur.

Despite these changes, the EU and Mercosur share a long history of close non-economic relationships. Both have been at the receiving end of large migration flows from each other. This has led to the development of kindred cultures, shared languages, and strong non-economic ties. These similarities have long supported the establishment of deep economic bonds through meaningful collaborations in science and technology, ease of doing business, and provisions for working professionals through various cooperation agreements. However, with the rapidly changing nature of their commercial relationship, these cultural links might not be enough to sustain the economic relationship between the two. These ties need to be complemented by the ratification of the EU-Mercosur Association Agreement to nurture their changing relationship.

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