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EU-MERCOSUR: a platform for a new era of transatlantic (and intra-regional Latin American) integration?

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Theme[1]

This paper evaluates the quantitative impact on trade flows of the ratification of the EU-MERCOSUR agreement and of a more ambitious and deeper strategic integration agenda between the EU and Latin America through the interconnection and harmonisation of the network of trade agreements between the countries (and trade blocs) of the region and the EU.

Summary

(a) The EU-MERCOSUR agreement reduces tariff and non-tariff barriers, boosts trade and investment, and is committed to sustainable development.

(b) If ratified, the EU would have trade agreements with 95% of Latin America's GDP, positioning the EU as Latin America's main strategic partner and MERCOSUR as a key player in sustainable and high value-added supply chains.

(c) Trade flows between the EU and MERCOSUR would grow by 37% without negatively affecting trade with third parties.

(d) If the EU-MERCOSUR agreement is used as a platform for more ambitious and deeper integration between the EU and Latin America –for example, through technical measures such as 'cross-cumulation' of rules of origin and Mutual Recognition Agreements (MRAs) with standards similar to those in force in the EU– bilateral trade would increase by up to 70% and Latin American intra-regional trade by up to 38%.

[1] The views expressed in this paper are those of the authors and therefore do not necessarily reflect those of the Bank of Spain or the Eurosystem.

(e) An economic bloc would be created between the EU and Latin America of 1.1 billion people and a GDP similar to that of the US economy. Except for Mexico, the EU would achieve a trade partner status with the rest of Latin America comparable to that of the US and China.

Analysis

In a world where geopolitics is gaining more and more weight, the EU-MERCOSUR agreement (recently signed and pending ratification), which encompasses trade, political dialogue and cooperation, is an opportunity not only to reduce tariff and non-tariff barriers to increase trade and investment flows, but also to lay the foundations for a strategic partnership based on shared values and a common vision on sustainable development between the EU and Latin America.

This paper assesses the impact on trade flows of the ratification of the EU-MERCOSUR agreement, as well as of a more ambitious and deeper strategic integration agenda between the EU and Latin America through the interconnection and harmonisation of the network of trade agreements of the countries of the region with the EU. The impact of this roadmap on bi-regional trade flows would transform the EU into a trading partner of Latin America on a scale comparable to that of the US and China (excluding Mexico) and would give a significant boost to Latin American intra-regional trade, creating an economic bloc between the EU and Latin America of 1.1 billion people and a GDP similar to that of the US economy.

1. The EU-MERCOSUR agreement: content and ratification process

The agreement, structured on three pillars –trade, political dialogue and cooperation–, eliminates more than 90% of bilateral tariffs, reduces non-tariff barriers and harmonises regulations in key areas such as technical standards, sanitary and phytosanitary measures, and public procurement. It also protects more than 350 European and 220 MERCOSUR geographical indications, consolidating trade in high-quality, origin-controlled products.

In terms of sustainability, the agreement is one of the most ambitious to date, with explicit commitments to fight climate change and deforestation, the implementation of the Paris Agreement and respect for labour rights under ILO standards. In addition, the EU has earmarked €1.8 billion to support the green and digital transition in MERCOSUR as part of the Global Gateway initiative.

From a geopolitical perspective, the agreement strengthens political dialogue and cooperation on a basis of shared values such as democracy, respect for human rights and rules-based trade. This positions the EU as Latin America's main strategic partner and MERCOSUR as a key player in sustainable and high value-added supply chains.

However, the ratification process poses significant challenges. In the EU the trade component of the agreement must be ratified by the European institutions (the Council of the EU and the European Parliament) to enter into force, while the political dialogue and cooperation components will require the approval of all 27 national parliaments. In

MERCOSUR, the ratification of the trade agreement will be more flexible, allowing for bilateral entry into force after individual approval by the parliament or congress of each member country.

2. EU-MERCOSUR Agreement: estimated impact on trade flows

If the EU-MERCOSUR Agreement is ratified, it would create an integrated market of more than 770 million people, with a combined GDP of €18 trillion.

This is a major achievement that would make the EU the global power with the strongest presence and deepest ties in the region: the EU would have agreements with all LAC countries (except Bolivia, Cuba and Venezuela) covering 95% of the LAC GDP, compared with 44% for the US and 14% for China (see Figure 1), countries that have not even started negotiations with MERCOSUR. [2]

[2] Bolivia formalised its incorporation as a full member of MERCOSUR in 2024, culminating a process initiated in 2012.

Figure 1. LAC trade agreements with the EU, the US and China

	Partner country	Type	Year	Status	% GDP of LAC
	Mexico	EPA	2000*	Under negotiation	
	Chile	EPA	2002*	In force	
	CARIFORUM	EA	2008	In force	
EU	Central America	AA	2012	In force	95
	Colombia	FTA	2013	In force	
	Ecuador	FTA	2013	In force	
	Peru	FTA	2013	In force	
	MERCOSUR	AA	2024	Under ratification	
	Chile	FTA	2004	In force	
	CAFTA-DR	FTA	2004	In force	
US	Peru	TPA	2009	In force	44
	Colombia	TPA	2012	In force	
	Panama	FTA	2012	In force	
	US-Mexico-Canada	FTA	2018	In force	
	Chile	FTA	2005	In force	
	Peru	FTA	2009	In force	
China	Costa Rica	FTA	2011	In force	14
	Ecuador	FTA	2024	In force	
	Nicaragua	FTA	2024	In force	

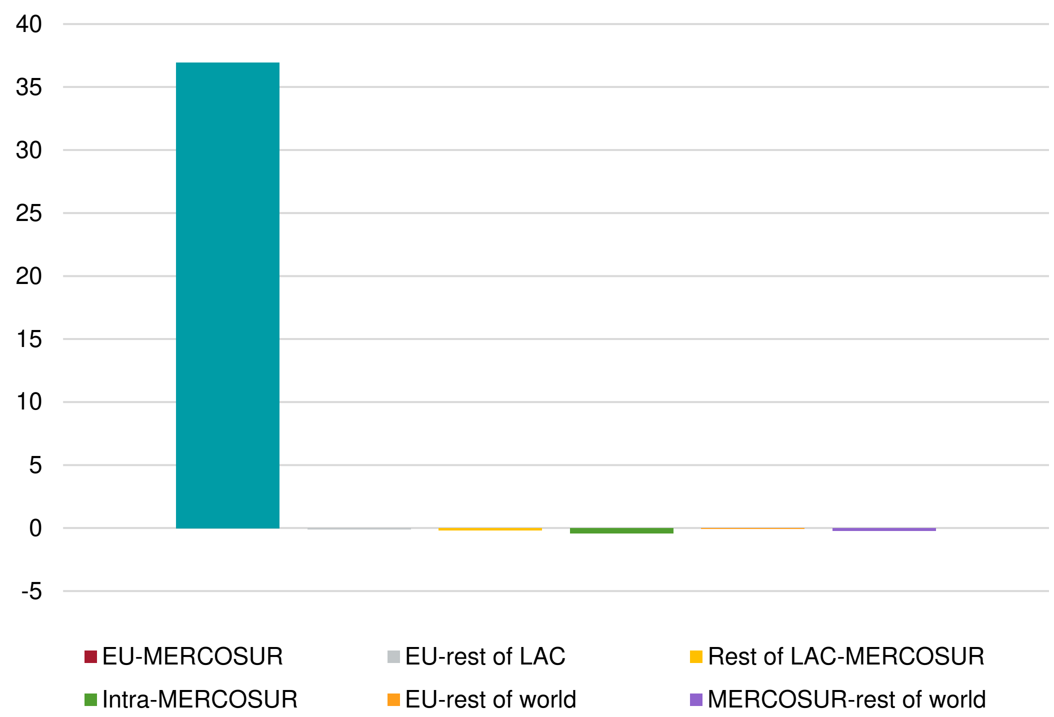
Notes: [*] Modernised agreements, with an initial EU-Mexico agreement reached in 2018 and in force for EU-Chile since 2024. EPA - Economic Partnership Agreement (*Acuerdo de Asociación Económica*). AA - Association Agreement (*Acuerdo de Asociación*). FTA - Free Trade Agreement (*Tratado de Libre Comercio*). TPA - Trade Promotion Agreement (*Acuerdo de Promoción Comercial*). CARIFORUM includes The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Lucia, Saint Vincent & the Grenadines, Saint Kitts & Nevis, Suriname, Trinidad & Tobago and the Dominican Republic. MERCOSUR includes Argentina, Brazil, Paraguay, and Uruguay. Central America includes Panama, Guatemala, Costa Rica, El Salvador, Honduras and Nicaragua. CAFTA-DR includes Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic. US-Mexico-Canada (USMCA). Modernised agreement from NAFTA, in force since 1994. Source: the authors.

The agreement between the EU and MERCOSUR would have a very significant impact on trade flows, according to the quantitative simulations shown in Figure 2.[3] In the long term, following the elimination of both tariff and non-tariff barriers, the simulation forecasts that trade flows (average exports and imports) between MERCOSUR and the

[3] An ex-ante quantification of the gains from trade is performed using empirical estimates of Timini & Viani (2022). The ex-post gains from trade for MERCOSUR member countries have been quantified by Campos & Timini (2022), among others.

EU will increase by 37%, with a very limited negative impact on trade with other geographic regions.

Figure 2. Change in trade flows between geographic regions following the ratification of the EU-MERCOSUR agreement (% change, average of exports and imports)



Notes: the figure shows the results of what we call Scenario 1, ie, an EU-MERCOSUR agreement, reporting the percentage change in trade flows between world regions. MERCOSUR consists of Argentina, Brazil, Paraguay and Uruguay. The EU is composed of the Member States of the EU. The rest of LAC is defined as the countries of Latin America and the Caribbean excluding MERCOSUR, Bolivia, Cuba and Venezuela. Trade flows are calculated as the average of exports and imports. Calculations are made for all countries for which data are available for 2019. See Campos *et al.* (2023) for more details on the sample of countries used. Baseline scenario: existing EU-LAC integration (current bilateral agreements). Source: the authors.

3. Towards a deeper EU-Latin American integration: estimated impact on trade flows

The EU-MERCOSUR agreement offers the opportunity to launch a more ambitious strategic integration agenda, deepening the network of existing Free Trade Agreements (FTAs) between the EU and LAC countries and blocs.

The scope of FTAs has expanded considerably over the last two decades. Agreements signed before the late 1990s generally covered fewer than 10 policy areas, focusing on measures to facilitate trade in goods between countries, without altering domestic regulatory frameworks. These measures included eliminating tariffs, reducing trade barriers, simplifying customs procedures and implementing rules of origin to ensure preferential access.

Since the 2000s most agreements have covered between 10 and 20 policy areas, including, in some cases, more than 20. These agreements typically incorporate regulatory commitments aimed at harmonising technical standards, sanitary and phytosanitary measures, and trade facilitation mechanisms, as well as rules on subsidies, competition policy and government procurement.

More recently, some FTAs have come to cover more than 50 policy areas, reflecting an increasing complexity and the inclusion of issues beyond trade. In general, these agreements include provisions on trade in services, investment, intellectual property rights, labour standards, environmental protection, regulation of state-owned enterprises and robust dispute settlement mechanisms.

However, the depth of these agreements depends not only on their coverage in terms of the number of areas and the number of provisions contained in each area, but also on the depth of the commitments made.[4]

To that effect, Fontagné *et al.* (2023) classify FTAs into three groups –of 'high', 'medium' and 'low' depth– according to: (a) the areas of coverage of the agreement; (b) the number of provisions contained within each area of coverage of the agreement; and (3) the depth of the provisions in each area.

Fontagné et al. illustrate the nature of a deep agreement with a simple example. The trade in services area of a 'deep' agreement may contain more than 70 provisions. In turn, each provision may have a different degree of depth. For example, the provision relating to the obligations necessary for a legal person 'to be considered a service supplier of a party to the agreement' may be very restrictive or liberal. In the former case, the service supplier is required to be incorporated under the domestic law of the country receiving the service and to have substantive business operations in its territory. In the more liberal version, the service supplier is only required to be owned or controlled by natural persons of the counterparty to the agreement. Thus, a high-depth integration agreement would not only include the trade in services area as part of the agreement but will contain a considerable number of provisions within the area, and the provisions it contains will be much less restrictive on trade in services than those of a low-depth agreement.

According to this classification the EU treaty is classified as a 'high' depth trade agreement, treaties signed between the EU and LAC countries are in the 'medium' depth category, and treaties between LAC countries are 'low' depth treaties.[5]

To simulate the impact on trade flows of a more ambitious and deeper integration agenda between the EU and LAC, we follow the methodology of *Fontagné et al*. under two scenarios, which we call Scenario 2 and Scenario 3 to distinguish them from Scenario 1 (the EU-MERCOSUR agreement ratified and in force) and the Base Scenario (existing EU-LAC pre-EU-MERCOSUR agreements).

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[4] For a detailed discussion on the provisions included in free trade agreements, see Aaditya Mattoo, Nadia Rocha & Michele Ruta (Eds.) (2020), *Handbook of Deep Trade Agreements*, World Bank Group, Washington DC.

[5] The EU-MERCOSUR agreement is not part of the classification of the Fontagné *et al.* (2023). However, within the group of trade agreements identified by Timini & Viani (2022) as similar to the EU-MERCOSUR agreement, most fall into the 'medium' depth category.

In Scenario 2 we assume that the level of trade integration between the EU and LAC countries becomes 'medium-high' instead of 'medium' in depth, and that the level of trade integration between LAC countries or blocs of countries that have existing agreements with the EU becomes 'medium' instead of 'low' in depth.[6]

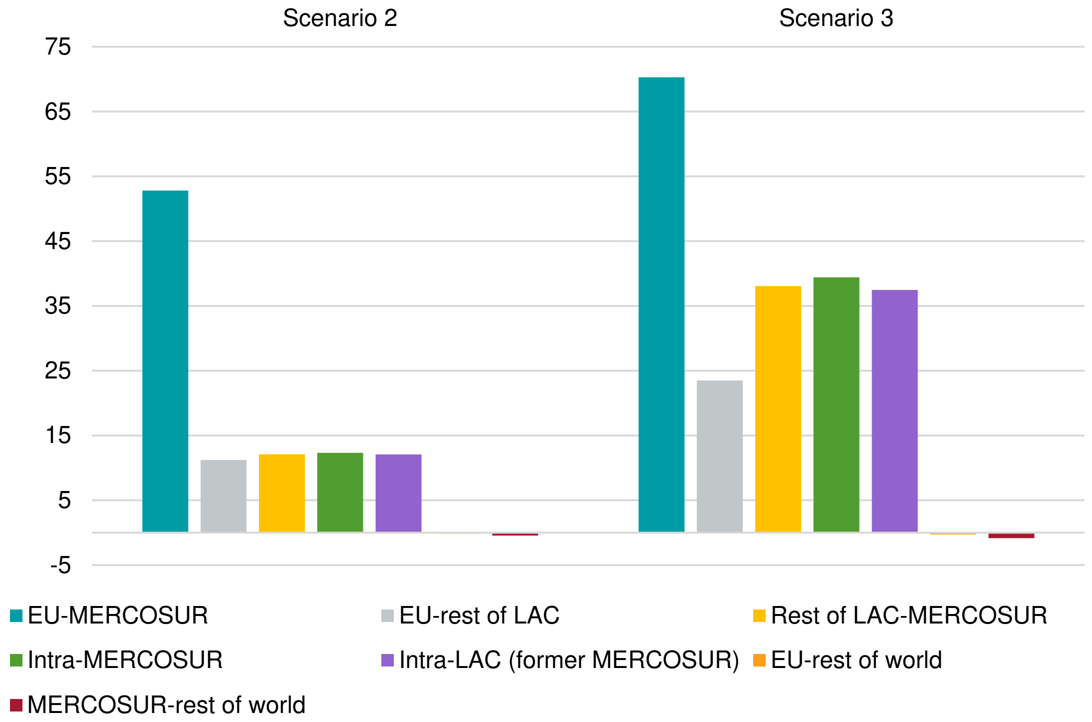
In Scenario 3 we assume that the level of trade integration between the EU and LAC countries deepens further, moving to 'high' rather than 'medium' depth, and that the level of trade integration between LAC countries or blocks of countries with agreements in force with the EU moves to 'high' rather than 'low' depth.[7]

These two scenarios illustrate a potential process of deepening EU integration with LAC and of LAC intra-regional integration itself among those countries (or blocs) with agreements with the EU. The respective impacts in terms of trade flows are shown in Figure 3.

[6] A 'medium-high' degree of depth refers to agreements that have an effect on trade that lies somewhere between 'medium' and 'high' depth agreements.

[7] Note that the 'high' depth category groups several treaties in addition to the EU agreement. This implies that the latter scenario reduces trade barriers according to the average of all treaties in this group, and not necessarily like the EU agreement itself. In fact, the EU agreement is probably the deepest of the agreements in the group, so the increase in trade in this scenario is lower than in a scenario where trade agreements between LAC countries fully converge to EU levels.

Figure 3. Impact of deepening the EU-Latin America FTA network on trade flows between world regions [8,9] (% change, average of exports and imports)



Notes: Scenario 2: EU-MERCOSUR agreement + medium-deep EU-LAC integration and medium intra-LAC integration. Scenario 3: EU-MERCOSUR agreement + deep EU-LAC and intra-LAC integration. Calculations are made for all countries for which data are available for 2019. See Campos *et al.* (2023) for more details on the sample of countries used. Source: the authors.

In Scenario 2 in Figure 3, trade flows between MERCOSUR and the EU increase by 53%. In addition, this scenario also foresees a considerable increase in intra-regional trade flows between LAC countries of about 12%, with a limited negative impact on trade with other regions.

In Scenario 3 in Figure 3, the expected increase in trade flows between the EU and MERCOSUR doubles compared to that of the EU-MERCOSUR agreement, reaching 70% for EU-MERCOSUR trade, a 23% increase in trade flows between the EU and LAC countries that are not part of MERCOSUR, and a 38% increase for intraregional trade between Latin American countries.

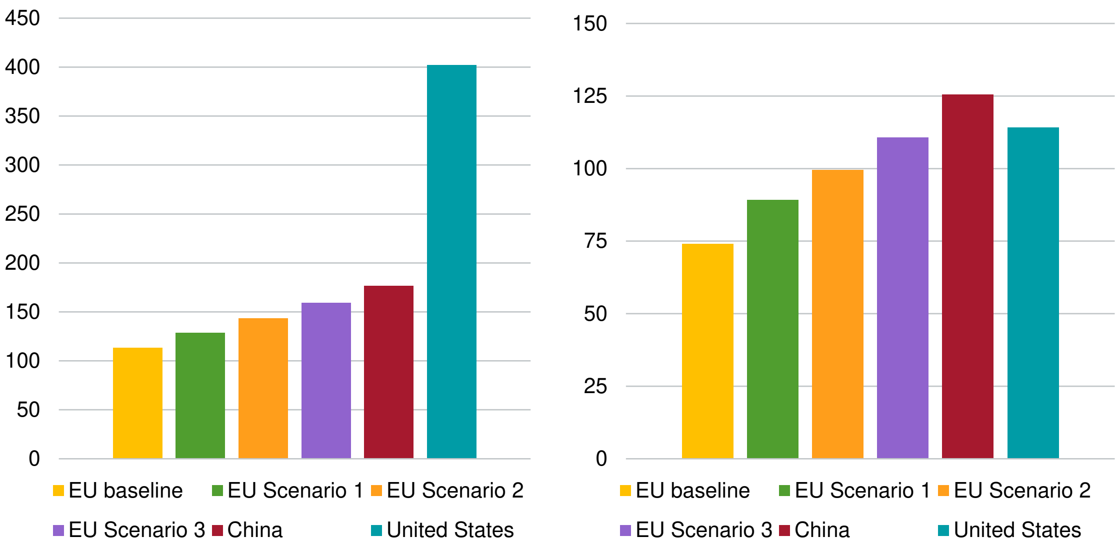
Figure 4 shows the increase in trade flows between the EU and LAC in each of the scenarios, in relation to the current situation of trade agreements (Base Scenario).

[8] The simulations use a standard Armington general equilibrium trade model with a positive supply elasticity, as described by Allen *et al.* (2020). The model is calibrated as in Campos *et al.* (2023) and also uses the same database and general methodology as in that paper.

[9] All scenarios show expected changes in trade flows relative to a common base scenario using data for 2019. Trade flows are calculated as the average of exports and imports. The results of Scenario 1 are comparable to those of Timini & Viani (2022).

Figure 4. Impact of deepening the EU-Latin America FTA network on trade flows between LAC and the EU, China, and the US (US$ bn)

a. Trade with Latin America and the Caribbean **b. Trade with Latin America and the Caribbean (excluding Mexico)**



Notes: trade flows are calculated as the average of exports and imports; the data for the baseline scenario refer to the year 2019. Baseline Scenario: Existing EU-LAC integration (current bilateral agreements). Scenario 1: EU-MERCOSUR agreement. Scenario 2: EU-MERCOSUR agreement + medium-deep EU-LAC integration and medium intra-LAC integration. Scenario 3: EU-MERCOSUR agreement + deep EU-LAC and intra-LAC integration. Source: the authors.

Panel (a) of Figure 4 includes all LAC countries. When all LAC countries are included, the EU ranks third, behind the US and China, as LAC's leading extra-regional trading partner. The importance of the EU increases as integration deepens and in the deepest integration scenario it approaches the levels of trade that the LAC region has with China.

In panel (b) of Figure 4, Mexico is excluded for two reasons. First, about 80% of its exports and about 45% of its imports are destined for or originate in the US due to its geographic proximity and the free trade agreement that links them (USMCA). Secondly, trade of the EU, China and the US combined with Mexico accounts for almost 55% of total trade with LAC.

When Mexico is excluded, China is LAC's largest trading partner, followed by the US and the EU. Again, the importance of the EU increases as integration deepens and in the deepest integration scenario the EU approaches US trade levels and significantly narrows the gap with China.

4. Towards a deeper EU-Latin America integration: a practical guide for action[10]

One pragmatic way to activate this more ambitious deepening process between the EU and LAC is by interconnecting and harmonising the different existing FTAs.

[10] This proposal is similar to that contained in Estevadeordal & Talvi (2016), *Towards a New Trans-American Partnership*, Brookings Institution.

There are very pragmatic ways of a technical nature to harmonise the trade rules of the EU agreements with the Caribbean, Central America, the Andean Region and MERCOSUR, such as the ‘cross-cumulation’ of rules of origin, ie, the possibility that inputs from several Latin American countries may be considered domestic inputs when incorporated by a member country when determining the origin of a product in order to benefit from the tariff reductions contained in the trade agreements with the EU.

By way of example, the current agreements would not allow a good produced in Brazil with inputs from Mexico to enter the EU with preferential access under the EU-MERCOSUR agreement (based on the agreement’s rules of origin). It could do so under a cumulation of origin agreement between EU-MERCOSUR and EU-Mexico. It would also operate symmetrically for European products using Latin American supply chains.

This mechanism of ‘cross-cumulation’ of rules of origin could generate significant integration dynamics both bi-regional and intra-regional. Other regions such as Asia-Pacific and Africa follow similar strategies in some of their more ambitious agreements (eg, RCEP, CPTPP and AfCFTA) while there is no comparable effort in LAC.[11]

A second pragmatic way to activate this more ambitious deepening process between the EU and LAC is through Mutual Recognition Agreements (MRAs). These are formal agreements between two or more jurisdictions whereby each party agrees to recognise among others: (a) tests, inspections and certifications performed by accreditation bodies in the territory of the exporting party; (b) the equivalence or compatibility of technical regulations; (c) the certification and labelling requirements; (d) quality standards and audit procedures for quality system documentation and facility inspection; and (e) procedures for notifying non-compliance, revoking recognition or suspending the agreement in case of repeated violations.

Why are MRAs important? By recognising counterpart certification processes, MRAs reduce the duplication of requirements, saving time and resources and facilitating the movement of products across borders. They can also serve as a springboard to greater regulatory coordination in the medium term, and to open new markets for exporters from countries that are part of the agreement, especially in highly regulated sectors such as medical devices and pharmaceuticals.

In short, MRAs are another pragmatic and powerful tool for harmonising and reducing technical barriers to trade and fostering regulatory cooperation. And while they can be highly technical in nature and cover multiple protocols (from laboratory testing to labelling requirements), they can play a vital role in trade facilitation.

Through these two channels, the ‘cross-cumulation’ of rules of origin and MRAs, deeper economic integration could be achieved between the EU and LAC, as well as between Latin American countries, with mutual benefits for both. A larger market and better

[11] RCEP (Regional Comprehensive Economic Partnership); CPTTP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership); AfCFTA (African Continental Free Trade Area). In LAC, it is important to highlight the Pacific Alliance Agreement, which was a pioneering agreement in the negotiation of provisions on cumulation of origin among its members, established in the Additional Protocol to the Framework Agreement (2014), with the aim of promoting intra-regional value chains.

interconnections between Latin American countries could: (a) increase the possibilities of attracting investment and participating in regional supply chains, even for smaller economies; (b) expand LAC's potential to become a major supplier to the EU of critical minerals, renewable energy and food, and to be part of high value-added supply chains; and (c) foster LAC's transition to a higher value and more sophisticated productive matrix with the contribution of capital, technology and know-how that would be more easily transferred from the EU.

Conclusions

After 25 years of negotiations, the EU-MERCOSUR agreement is a historic opportunity to seal a more ambitious and deeper strategic integration between the EU and Latin America: two blocs that share values, a cultural heritage, are economically complementary, and encompass more than 1.1 billion people.

If the EU-MERCOSUR agreement is ratified, the EU will have FTAs with 94% of Latin America's GDP. If the momentum of the agreement is also used as a lever to interconnect and harmonise the network of FTAs of Latin American countries or blocs with the EU –for example, through very pragmatic measures such as 'cross-cumulation' of rules of origin and Mutual Recognition Agreements (MRAs) based on standards similar to those of the EU– simulations point to a significant increase in bi-regional trade of up to 70%. With this, the EU would reach a status comparable to that of the US and China (except for Mexico) as a trading partner for Latin America, while intra-regional trade in Latin America would grow by up to 38%. This would create an integrated EU-Latin American economic bloc of a size comparable to the GDP of the US.

Realising this vision will require a strong political will to effectively ratify the EU-MERCOSUR agreement and the commitment of the EU and the main Latin American countries to lead and promote this agenda.