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# Uruguay-China Relations and their Free Trade Agreement



Evan Ellis | September 29, 2022  
Global Americans Contributor



*Chinese Special Envoy Li Ganjie (L), also minister of ecology and environment, meets with Uruguay's President Luis Lacalle Pou in Montevideo, Uruguay, on March 2, 2020. Source: Xinhua.*

The July 2022 announcement by the Lacalle Pou government in Uruguay of its intentions to proceed forward with a free trade agreement (FTA) with the People's Republic of China (PRC) has both created profound difficulties for the Mercosur trade bloc and highlighted the nature of Uruguay's strong and deepening relationship with the PRC. This work looks at that growing relationship in the implications of the Uruguay-PRC FTA.

## **The Uruguay-PRC relationship**

Uruguay's relationship with the PRC has been significant and developing for

business ties. Those ties have been politically important for both the current Multicolor Coalition government and its predecessor Broad Front. During a visit to China in October 2016, then-President Tabare Vasquez set forth a strategic partnership relationship with the PRC, one of ten nations in the region to have that status. In August 2018, Uruguay formally associated itself with China's Belt and Road initiative. The present center-right government of Luis Lacalle Pou presided over Uruguay's acceptance into the Asia infrastructure investment bank (AIIB), in May 2020.

Although Uruguay has been somewhat cautious towards investment from Chinese companies, in big state-to-state projects, it arguably became more receptive following the role that the PRC played as a vaccine provider during the COVID-19 crisis.

In general, however, the relationship with China has been shaped mainly because of Uruguay's relatively strong institutions and transparency.

Since China joined the World Trade Organization in 2001, as with other countries in the region, Uruguay's bilateral trade with the PRC has grown significantly, reaching a level in 2019 that was 19 times that of 2001. In contrast to some Latin American nations, Uruguay has maintained a relatively favorable trade balance with the PRC, largely because of its agricultural exports. Indeed 90 percent of Uruguay's exports to the PRC are agricultural goods, including soy, wood, and meat.

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In agriculture, 80 percent of the nation's soy and 40 percent of its wool are exported to the PRC. Chinese companies have a presence in the Rondatel and Claremar slaughterhouses. The Chinese agrolistics firm COSCO operates in Nuevo Palmira. Since 2017, the PRC has also been an important purchaser of wood and wood pulp in Uruguay and has indicated an interest in acquiring Uruguayan timberland for sourcing wood.

In the fishing sector, the Chinese deepwater fleet regularly has used Uruguayan ports and has indicated establishing an exclusively Chinese port in Uruguay, including a proposal by Shandong Bao Ma to build and operate a USD \$200 million facility at Puerto Yeguas. However, the deal was ultimately stopped by the Uruguayan government.

Despite the agricultural concentration, the PRC has shown interest across broad sectors of the Uruguayan economy. The Uruguayan petroleum organization ANCAP has sought to attract Chinese investment in offshore drilling, although without concrete PRC commitments until now.

In infrastructure, PRC-based companies have explored the construction of a rail line to connect the Aratiri mine to the coast. Shanghai dredging plays a role in maintaining the shipping channels out of Uruguayan ports. The companies of China Metallurgical Engineering Corporation (CMEC) and Shanghai High-Velocity Group expressed an interest in the construction of Uruguay's central rail line but later withdrew from the competition. In Uruguay's electricity sector, as in other parts of the region, CMEC was contracted by the Uruguayan provider UTE to build a USD \$191 million high voltage transmission line from Tacuarembó to Salta in support of the distribution ring for the Uruguayan power grid.

Chinese companies have made significant inroads in vehicle sales, including renewable energy vehicles. The Chinese company BYD has sold electric taxis

Chinese car company Chery set up a factory in Montevideo, although it ran into problems and was forced to shut down in 2015, leading to an attempt by Lifan and the Chinese electronics manufacturer Brilliance to establish a presence in the facility.

In telecommunications, Huawei has had a strong position in Uruguay since 2016. Chinese communication device makers ZTE and Xiaomi are also in the market. In 2019, Uruguay's telecommunication organization ANTEL signed a memorandum of understanding with Huawei to cooperate on 5G and Internet of Things (IoT) technologies. Currently, Huawei is strongly positioned to capture a leading role in 5G as Uruguay rolls out the new technologies.

In e-commerce, the Chinese company Alibaba has a presence in the country, mainly in business-to-business (B2B). However, Huawei also faces strong competition in Uruguay from non-Chinese competitors such as Mercado Libre, Tienda Mia, Amazon, eBay, and WOOW.

Beyond commerce, in 2018, the PRC inaugurated a Confucius institute in Uruguay, at the *Universidad de la República*. China offered 82 scholarships to Uruguayan students to study in the PRC in that year alone, a relatively higher level than that offered to other Latin American countries. Other Uruguayan universities, such as the ORT University, have important China-studies programs independent of the PRC government.

As previously mentioned, during the pandemic, the PRC made significant inroads in Uruguay by providing Personal Protective Equipment (PPE), and by becoming the principal early vaccine provider to the country beginning in February 2021. However, the importance of the less effective Chinese vaccines fell off as western mRNA vaccines became more widely available in the country.

Since 2017, the PRC has annually donated approximately USD \$5 million in military and dual-use vehicles to Uruguayan security forces, including construction equipment, 10 AVECO ambulances, and various dual-use vehicles. In August 2022, the Uruguayan Congress ratified an agreement signed with the PRC in 2019 to expand defense cooperation between their corresponding Ministries of Defense, including in the areas of acquisition of Chinese goods, technology cooperation, and even exercises in domains such as peacekeeping and the response to disasters. Uruguay and the PRC have also interchanged military personnel, including the training of Uruguayan officers in China and regular institutional visits.

In the defense procurement domain, Uruguay recently signaled an intention to purchase Chinese offshore patrol vessels, only the second country in the region to do so after Trinidad and Tobago. The PRC has also reportedly sought to market its L-15 fighter and Z-9 military helicopter to Uruguay.

### **Uruguay's Free Trade Agreement with the PRC**

Uruguay's declaration of intention to pursue an FTA with the PRC has created both legal and political problems within the Mercosur trade bloc. However, the country's interest in an FTA with PRC can be explained through its longstanding frustration with the benefits that it has secured from Mercosur membership.

Even though Uruguay is a relatively small country, its inclusion in the Mercosur trade bloc was supported by its leaders with the intention of accessing the markets of its two larger neighbors, Argentina and Brazil. However, in recent years, Uruguay has arguably come to perceive that the bloc has not served its purpose properly, given that its access to Argentine and Brazilian major markets has been limited by de-facto protectionism. At the same time, the relatively high external tariffs of Mercosur to the world have

market. Uruguay has also arguably perceived that Mercosur's policies were frequently and unfairly imposed on it with the larger countries insisting on exceptions to trade freely, such as the free trade zone in Argentina's Tierra del Fuego.

Beyond Uruguay's frustrations with Mercosur, as noted previously, the Chinese market has become increasingly critical for Uruguay and its importance is growing.

While Mercosur itself has pursued a free trade agreement with the PRC, the prospects that such negotiations will come to fruition are limited and declining. One factor is shifting regional politics, with a protectionist Peronist government in Argentina, complemented by the possible return of the historically protectionist center-left Workers Party (PT) government in Brazil. Making matters worse for Uruguay's trade prospects, free trade negotiations between Mercosur and the European Union also appeared to be stuck for the moment.

Furthermore, Mercosur's rules appear relatively explicit in prohibiting its members to sign unilateral trade deals with external countries. Still, there is sufficient ambiguity in such rules, and the political weakness in the bloc leaves space for Uruguay to negotiate an FTA with the PRC. Mercosur never fully implemented a complete free trade area within the bloc or a common external tariff among its member countries.

In addition, Mercosur's requirement of consensus for FTAs may not apply to prohibitions against negotiations. Uruguay is currently navigating in this legal ambiguity by stating that it wants Mercosur to join it in its free trade negotiations with the PRC, while also insisting that it will engage in such negotiations even without Mercosur. Also supporting such ambiguity, Mercosur, unlike the European Union and the US-Mexico-Canada Free Trade

that a member has violated the terms of the agreement, with enforceable legal routes for imposing penalties. The removal of Uruguay from the bloc would be the most realistic response if Uruguay's relationship with fellow Mercosur members deteriorates due to its negotiations with the PRC. Still, it is not clear whether the political will of other members for such a removal currently exists.

## **Prospects and Implications for a PRC-Uruguay FTA**

The course of Uruguay-PRC negotiations will be determined not only by Mercosur politics, but also by technical considerations such as the length of the negotiations and China's flexibility on areas that are crucial to Uruguay, including the protection of its market. Thus far, the PRC has appeared to prioritize negotiations with Uruguay and demonstrate that flexibility. The impact of the agreement will also be shaped by the number of protected sectors permitted within the agreement and deadlines set forth for the expiration of any agreed-upon temporary protections.

If the Uruguay PRC-free traded treaty is achieved, as with other FTAs, it is likely to contribute to a significant advance of Chinese businesses in the country, including their physical presence beyond the trade-focused relationship which has so far characterized the relationship. As with other parts of Latin America, the advance of PRC-based companies in Uruguay will likely fuel a "civil war" between domestic producers, which are threatened by the Chinese competition, and others who seek to make money by being local partners to the Chinese firms.

The course and level of the threat from China's economic advance in the country will be checked by Uruguay's relatively strong institutions and transparent processes. Nonetheless, those institutions are not impervious to the influence of the Chinese companies' size and resources, particularly in



The key effect of an FTA will likely be a significant advance in Uruguay's exports of primary products to the Chinese market, specifically agricultural products, although it is not clear whether Uruguay has the capacity to significantly expand such exports. As what has occurred in Chile with products such as cherries and table grapes, Uruguay will also probably make advances in marketing niche luxury products in the PRC, such as its wool products. Such improvements, however, will be conditioned on the knowledge of the companies of the Chinese market, and the level and sophistication of support provided by Uruguay's trade promotion organization.

A completed Uruguay-PRC trade agreement will probably encourage other Mercosur members to pursue their own FTA, although it is not clear whether the politics of other Mercosur members would allow such agreements to prosper. Significant expansion of the trade relationship would also put additional pressure on Paraguay to switch its alliance from Taiwan to the PRC, particularly following Paraguay's April 2023 elections.

The agreement will potentially create difficulties for the European Union (EU)-Mercosur free trade agreement, since it would increase the risks of Chinese products entering into the EU through Uruguay. As previously noted, it would also raise fundamental questions about the future of Mercosur itself and contribute to China's sustained economic advance in the region relating to a relatively atomized group of partners, rather than a bloc negotiating shared interests with the PRC.

Uruguay, as a relatively small country distant from the United States, often does not receive significant policy attention in Washington. However, its deepening ties with the PRC, accelerated by the FTA negotiations, raised the prospect of a considerable increase in Chinese commercial and corresponding political leverage in the country. This is strategically significant and should be on Washington's radar, given that Uruguay, in combination with Paraguay—

[FTA with the PRC](#)—are currently the three remaining center-right governments in the region, still showing an interest to cooperate with the United States on matters of shared strategic interests.

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