Mercosur-European Union trade agreement, in perspective

After nearly three decades of negotiations, the Mercosur-European Union agreement was finally signed on January 17 in Asunción by the leaders of the two blocs. Against a backdrop of significantly weakened multilateralism over the past fifteen years, coupled with a recent drastic structural change in US geopolitical alliances, the obstacles to the agreement between the four Mercosur countries—Brazil, Argentina, Paraguay, and Uruguay—on the one hand, and the European Union on the other, were effectively dissolved.

In this sense, to paraphrase Geraldo Vandré, “those who know how to make things happen don't wait for them to happen”; both sides, faced with the winds of drastic change in international geopolitics – including trade agreements – smoothed out their differences and signed the agreement, the formal launch of negotiations for which took place at the European Union-Latin America and Caribbean Summit (EU-LAC) in Rio de Janeiro on June 28, 1999.

The agreement will promote free trade among more than 700 million inhabitants, representing approximately 20 percent of global GDP, and will enable the reduction of prices for important services and goods between these regions, generally expanding the frontiers of production on both sides.

Paradoxically, the agreement is signed at a time when the multilateral system is fragmenting, as a proposal for deep bi-regional integration, resulting, in some way, from the failed ambition of the Doha Round, which sought this integration via global consensus.

It is important to take a perspective view as we welcome the conclusion of this agreement and begin a long phase of preparation for its actual implementation. In this sense, the discovery and subsequent colonization of Latin America occurred concurrently with the period of sophistication in production and trade at the end of the Middle Ages, which gave rise to commercial capitalism and those ideas and practices that we coin with the term Mercantilism. At this point, trade ceased to be solely a private activity and began to occupy a strategic place in the construction and strengthening of nation states.

Latin America, more specifically South America, became a source of agricultural and mineral raw materials and an incipient importer of manufactured goods, largely from England. It is worth noting the great importance of the export of more than a thousand tons of Brazilian gold throughout the 18th century, which was a major driver of European capitalism as well as the expansion of trade with Asia.

In the 18th century, amid this atmosphere, the first theories on international trade also emerged, theories that were not separate from national interests. The

first great exponent in this field of study was David Ricardo, an English nobleman, who in his seminal book *Princípios da Economia Política e Taxação* developed the important concept of comparative advantages, a key point in the defense of English liberalism at the time. 1

With his theorem under his arm, David Ricardo and his country postulated throughout the 18th, 19th, and early 20th centuries the well-known international division of labor: the Northern Hemisphere producing and exporting manufactured goods and the Southern Hemisphere producing and exporting agricultural and mineral commodities, a format that lasted until the Great Depression of 1929, putting an end to the liberalism that had prevailed until then and leading to a two-decade wait for the first multilateral negotiations to begin with the creation of the GATT, the General Agreement on Tariffs and Trade, in 1947.

Parallel to this global and geopolitical development in the early decades of the 20th century, important improvements in international trade theory emerged in academia in the Northern Hemisphere. It is worth mentioning the Heckscher-Ohlin-(Samuelson)2 Theorem, which refines David Ricardo's theory of comparative advantage. According to the famous theorem, it is not the differences in production technology between countries that define comparative advantage, but the endowment relative scarcity of different factors of production. Countries should specialize in those technologies for which they have an abundance of a given factor of production.

At the end of the 20th century, new trade theories emerged, spearheaded by another Nobel Prize winner, Paul Krugman, showing that modern trade agreements focus far beyond so-called “comparative advantages,” seeking to exploit economies of scale, product differentiation, and efficiency gains associated with market integration and the organization of global value chains 3.

Thus, placing the recent agreement between Mercosur and the European Union in our brief historical perspective, after centuries of Latin American colonization by Europe, a long period of delay in the continent's industrialization process, late industrialization from the 20th century onwards, and recent important technological advances in specific sectors, especially agriculture, an agreement between these two large blocs has emerged.

Every free trade agreement aims to expand what economists call the production frontier, greatly benefiting consumers by giving them access to better and cheaper products and services. European consumers will have cheaper beef on their tables, while Mercosur consumers will have more affordable European cheeses and wines. The agreement tends to expand local industries' access to

new technologies, mainly through the importation of capital goods, more advanced intermediate inputs, foreign direct investment, and the dissemination of production standards, which is urgently needed to increase our overall productivity.

Obviously, any process of “globalization” implies losses for the sectors least prepared for competition in the bloc and, consequently, the disappearance of companies and economic groups and job losses in these sectors. The success of the agreement necessarily involves looking at these workers, who must be supported in their retraining to serve the sectors that have benefited from the new situation. As for the capital under threat, part of it will be extinguished and part will be repositioned, a dynamic intrinsic to capitalism, to the process of creative destruction and innovation.

Ricardo Meirelles de Faria, PhD, Escola de Administração de Empresas de São Paulo – FGV, February 2026.

Notes

1 - Ricardo, David; *On the Principles of Political Economy and Taxation*. London: John Murray, 1817.

2 - Heckscher, Eli; *The Effect of Foreign Trade on the Distribution of Income*. Ekonomisk Tidskrift, v. 21, n. 2, 1919; Ohlin, B; *Interregional and International Trade*. Cambridge: Harvard University Press, 1933; Samuelson, P; *International Trade and the Equalisation of Factor Prices*. The Economic Journal, v. 58, n. 230, 1948. Paul Samuelson is placed in parentheses in the text to differentiate between the two original authors of the topic and the author who perfected it in mathematical terms.

3 - Krugman, P; Increasing Returns, Monopolistic Competition, and International Trade. Journal of International Economics, v. 9, n. 4, p. 469–479, 1979