

Europe and South America seal a trade pact for the Trump era

The EU-Mercosur agreement is a big deal in the world of geoeconomics

Jan 11th 2026, *The Economist*

THE EUROPEAN UNION and Mercosur, a bloc of South American countries, first started negotiating their trade deal last century. [...]

That the two blocs are about to sign that deal this week, after more than 25 years of negotiations, highlights how things have changed. America is retreating from globalisation, raising tariffs, and [threatening to seize Greenland](#) from Denmark, a NATO ally, after sending troops into Venezuela to kidnap its leader. Chinese competition threatens businesses in both Latin America and Europe, and countries are increasingly obsessed with guaranteeing secure supplies of critical raw materials, of which Latin America has plenty. Anticipating such challenges, the EU and Mercosur completed their negotiations shortly after Donald Trump won America's presidential election in 2024, though agreeing to approve the deal took Europe another year. [...]

The quarter-century negotiating delay is the fault of protectionist lobbies on both sides of the Atlantic, especially European farmers, who fear a flood of cheap beef and sugar. [...] The pact won the support of a "qualified" majority of EU countries, [...] after a raise in subsidies for farmers helped induce Italy to switch sides. It opens up markets in four longstanding Mercosur members: Brazil, Argentina, Paraguay and Uruguay. Venezuela has been suspended from the bloc and is thus not included. Bolivia, the newest member, could join the trade agreement in the coming years.

Economically, agriculture is a tiny part of the deal.[...]

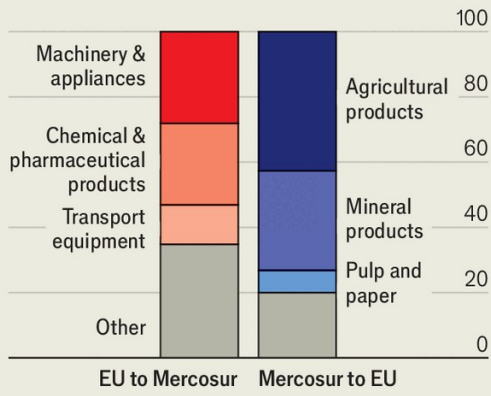
The real economic rationale lies in industrial and services trade. The pact creates a free-trade bloc of more than 700m people. By 2040, removing tariffs on around 90% of goods on both sides and simplifying trade in services will boost the EU's exports by €49bn (\$56bn) and Mercosur's by €9bn, the Europeans estimate. [...] But new opportunities matter for Europe's industries, which are struggling with American protectionism [and Chinese competition](#). They help Europe's industries maintain scale as they lose market share elsewhere. [...]

The deal is a major event in what has come to be called "geoeconomics", or the interaction between geopolitics and the economy. It is the biggest element of a wider attempt to strengthen ties with Latin America and diversify European trade and supply chains. As for countries that do not belong to Mercosur, the EU already has agreements with Peru, Colombia, Ecuador and Chile. It has finished negotiating an update to its deal with Mexico, which now awaits approval. Such ties help develop Latin American industries that the EU can count on if others cut it off, such as critical raw-material extraction and refinement.

Snubbing Mercosur at the behest of domestic farmers would have been an own goal for Europe. "Failing to sign the EU-Mercosur free-trade agreement risked pushing Latin American economies closer to Beijing's orbit," says Agathe Demarais of the European Council on Foreign Relations, a think-tank. The EU and Latin America are pursuing "post-American transatlanticism", as Alexander Clarkson of King's College London calls it. The flat world of 1999 has given way to regional power politics. The EU is starting to play that game in its own way. ■

Cars for cows

EU and Mercosur, goods exports, 2024, %



Source: European Commission