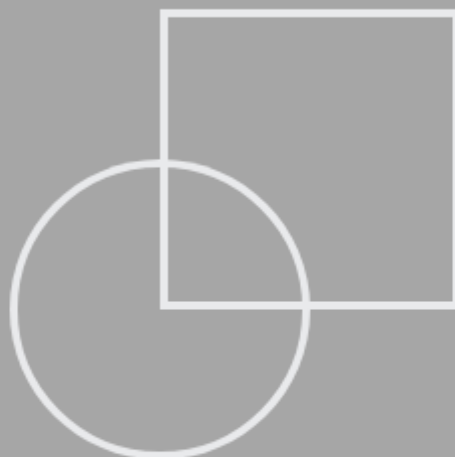


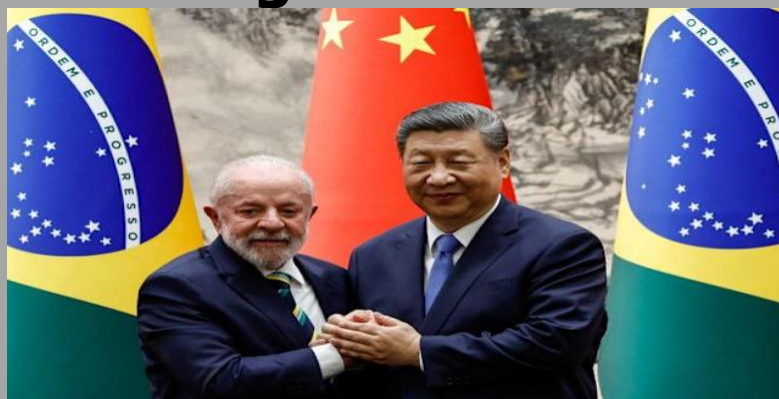
THE FINE MEMO



LA LIGNE FINE

Institut

Strategic Implications of China's Perception of the EU–Mercosur Agreement.



Thematics : RIDS – Relations internationales, Défense et Sécurité

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Introduction

Mercosur at the Crossroads of Global Geoeconomic Rivalry.

Over the past two decades, the political economy of South America has undergone a seismic transformation. The rise of China has radically reshaped traditional patterns of trade and investment, displacing long-standing actors such as the European Union. One figure illustrates this shift clearly: **in 2017, China became Mercosur's largest trading partner, a position the EU had held for decades.**

This change is not merely quantitative but qualitative. China has built a relationship of asymmetric interdependence with the South American bloc in terms of international trade. This commercial dynamic has been accompanied by growing financial influence, a well-established phenomenon. At the same time, the EU has sought to counterbalance this loss of influence through its bi-regional association agreement with Mercosur.

After more than two decades of negotiations, the agreement, signed in January 2026, is not merely an ambitious trade liberalization project. In a global context marked by intensifying strategic rivalry between the United States and China, and the resulting reconfiguration of global value chains, the treaty emerges as a first-order geopolitical instrument.

Amid rising competition for influence in Latin America, a central analytical question emerges: **how China interprets the EU–Mercosur agreement and what implications it may have for its regional strategy. From Beijing's perspective, the EU–Mercosur agreement is not simply a trade treaty but a complex geoeconomic challenge that reshapes the regional environment in which it operates and requires strategic adjustment rather than fundamental revision of its approach.**

To support this argument, the memorandum is structured into three sections.

- I. It analyzes China's strategic interests in Mercosur, going beyond the narrow lens of trade relations;
- II. It examines the specific impact of the EU–Mercosur agreement on these interests, identifying the most sensitive sectors and dynamics;
- III. It evaluates China's likely perceptions and strategic responses.

Finally, it concludes with the geopolitical implications of this emerging configuration for the balance of power in South America.

I. The Pillars of China's Strategy in Mercosur

China's expansion in Mercosur is not a random phenomenon, but rather the result of a deliberate and strong strategy.

Economic–Commercial Pillar: The Centrality of Resources and Markets.

China is Mercosur's main trading partner, representing 26.7% of its external trade in 2023, ahead of the EU (16.9%) and the US (13.9%). Trade follows a traditional **core–periphery pattern**. An unequal relationship: China diversifies suppliers and upgrades its economy, Mercosur increases dependence on a few commodities and faces industrial displacement in sectors such as textiles and electronics due to Chinese competition.

Financial–Investment Pillar: Connectivity and Strategic Dependence.

China's second strategic pillar in Latin America is its role as financier and investor. Through the China Development Bank and China Eximbank, it has lent over \$140 billion since 2005, surpassing the World Bank and Inter-American Development Bank combined, and is widely seen as a key financial actor shaping South American infrastructure. These funds target strategic projects such as hydroelectric plants in Ecuador, railways in Argentina, and power lines in Brazil and the Dominican Republic. Beyond economics, they secure access to resources, embed firms like China Railway Construction Corporation and Gezhouba, and offer an alternative to Western finance for countries with limited access to capital markets.

Geopolitical Pillar: A Strategic Ally in the Global South.

Beyond economics, China sees Mercosur, especially Brazil and Argentina, as key geopolitical partners in reshaping the international order. Its 2016 Policy Paper promotes “comprehensive strategic partnerships” based on South South cooperation, reinforced by Trump-era trade tensions encouraging coordination with defenders of multilateralism.

Through BRICS+, Brazil supports efforts to counterbalance the G7 via IMF reform and de-dollarization. The Belt and Road Initiative, extended to Argentina and Uruguay, integrates Mercosur into Chinese-led networks. In a context of US rivalry, cooperation also expands to digital infrastructure, 5G, and space, supporting an alternative technological ecosystem to Western-led systems.

Table 1: Comparative Strategic Logics in International Trade between the EU, Mercosur, and China.

Dimension	European Union	China	Mercosur
Relationship Model	Institutionalized interregionalism	Pragmatic bilateralism	Recipient of external influences
Main Instruments	Trade agreements, Global Gateway initiative, regulatory cooperation	Commodity trade, infrastructure financing (CDB/Eximbank), Belt and Road Initiative (BRI), technological cooperation (e.g., Huawei)	Common External Tariff (with exceptions), natural resource export capacity
Strategic Objectives	Strengthen economic presence, export regulatory standards, anchor the region within the transatlantic orbit	Secure strategic resources, create long-term dependency, gain allies in the Global South	Diversify trade partners, attract investment, maintain strategic autonomy
Comparative Advantages	Normative power, sustainability standards, high value-added market	Insatiable demand for resources, financing without political conditionality, speed of execution	Abundance of natural resources, integrated regional market
Weaknesses / Challenges	Regulatory conditionality (perceived as interference), relatively lower commercial dynamism	Dependence on partners' commodity exports, perception of asymmetry, competition with local industries	Internal fragmentation, re-primarization of the economy, dependence on external actors

II. The EU–Mercosur Agreement: An Analysis of Its Impact on Chinese Interests.

The EU–Mercosur agreement aims to deepen cooperation on sustainability, digital transformation, and multilateral coordination, as a broad strategic partnership. It reflects the EU's effort to regain influence in a region where China is now the main trading partner and affects key pillars of China's strategy.

Commercial Dimension: Tariff Advantages and Sectoral Competition.

The agreement creates a preferential tariff area favouring EU goods over Chinese exports in Mercosur, with most trade gradually liberalised over 10 years (Grieger, 2025), reducing China's price competitiveness. EU sectors gain strong advantages: cars face phased tariff elimination while Chinese vehicles remain taxed at 35%, most machinery becomes duty-free, and chemicals/pharmaceuticals benefit from higher tariff protection. Overall, it redirects trade in favour of Europe and away from Chinese value-added exports.

Normative Dimension: The Challenge of European Regulatory Power.

Beyond tariffs, the agreement contrasts two trade models by linking EU market access to environmental and social standards (TSD chapter, Paris Agreement), creating non-tariff barriers as Mercosur alignment with EU rules raises compliance costs and can restrict Chinese exports. It also reflects a clash between the EU's normative approach and China's non-interference-based model.

Geopolitical Dimension: Mercosur as an Arena of Systemic Rivalry.

Finally, the agreement has a geopolitical dimension, aiming to anchor Mercosur in the transatlantic sphere amid US-driven fragmentation. It impacts China through infrastructure competition, as the EU's Global Gateway (€300 billion) competes with the Belt and Road by offering an alternative based on higher environmental and social standards. It also strengthens EU–Mercosur coordination in multilateral forums (climate, digital trade, investment), reducing China's influence and its ability to position Mercosur as a Global South partner.

So, beyond these sectoral and regulatory effects, the EU–Mercosur agreement signals a broader shift in the balance of external influence in Latin America, reshaping the strategic environment in which China operates and conditioning the scope of its future responses.

III. Beijing's Strategic Calculus: Perceptions and Responses to the New Scenario.

After assessing the EU–Mercosur agreement, China's response is likely to be mixed, combining cooperation, competition, and selective adjustment. The central argument of this analysis is that the agreement is not perceived as a major setback, as structural trade patterns based on resource demand and manufactured exports remain unchanged, and the centre–periphery model is too entrenched to be reversed by a single deal. Beijing is therefore unlikely to adopt a confrontational stance, instead favouring strategies aimed at offsetting and, where possible, benefiting from the new configuration.

Deepening Bilateral Relations with the “Heavyweights”.

Given the difficulty of a bloc-to-bloc agreement with Mercosur, notably due to Paraguay's recognition of Taiwan, China is likely to strengthen pragmatic bilateralism. Brazil is the main priority as the dominant economy, accounting for 78.1% of Mercosur–EU trade (Grieger, 2025), and Beijing may deepen cooperation through COSBAN in energy transition, digital infrastructure, and local currency financing to reduce US dollar dependence. Argentina remains a key partner despite volatility, maintained through currency swap agreements

supporting reserves and investments in energy and logistics infrastructure (Myers & Gallagher, 2019), and these ties are likely to be further expanded to counter European influence.

Diversification of Cooperation Instruments: Beyond the BRI.

China can also diversify its engagement beyond bilateral ties and the Belt and Road Initiative, already joined by Argentina and Uruguay. It is likely to promote technological cooperation through digital infrastructure, AI, data centers and smart cities, with Huawei already active in Brazil and Chile. It can also reinforce flexible financing by offering faster credit lines with fewer environmental and social conditions than EU or Bretton Woods institutions, targeting energy and transport infrastructure less eligible for EU funding.

Selective Retaliation and the “Geopolitics of Resources”.

China also has asymmetric pressure tools due to its role as the main buyer of Mercosur commodities. It could redirect purchases toward more receptive partners such as Brazil and Argentina while sidelining Uruguay or Paraguay, link commodity contracts to advantages for Chinese firms in infrastructure tenders to offset EU tariff gains, and use its dominant position in critical supply chains like lithium and rare earth processing to influence value-chain development competing with Europe.

Table 2: Causal Links Between the EU Mercosur Agreement and China’s Strategic Responses.

China’s Strategic Pillar (Point 2)	Impact of the EU–Mercosur Agreement (Point 3)	Expected Chinese Response (Point 4)
Economic–Commercial (Access to resources and markets for manufactured goods)	Trade diversion: Tariff advantages for European products in sectors such as automotive, machinery, and chemicals.	Bilateral deepening: Intensify trade relations with Brazil and Argentina to compensate for potential losses.
Financial–Investment (Financing of strategic infrastructure)	Geopolitical competition: The EU’s Global Gateway directly competes with the Belt and Road Initiative (BRI).	Instrumental diversification: Offer faster, less conditional financing for key projects, competing on speed and flexibility.
Geopolitical (Allies in the Global South and multilateral forums)	Regulatory alignment: The agreement brings Mercosur closer to EU standards and political orbit.	Selective retaliation and “resource geopolitics”: Use its demand for commodities (soybeans, lithium, beef) as leverage to exert pressure and shape political alignment.

Ultimately, China’s response to the EU–Mercosur agreement is unlikely to resemble that of a displaced actor, but rather that of a strategic competitor seeking to adapt and counterbalance the new environment. Beijing may combine the deepening of its bilateral ties with the bloc’s most important partners, the diversification of its cooperation instruments toward

technological and financial sectors with high political returns, and the potential use of its immense demand for resources as a tool of asymmetric leverage.

Rather than withdrawing from the region, China is expected to double down on its engagement with Mercosur, turning competition with Europe into an incentive to innovate and expand its own strategy of economic and geopolitical engagement in South America.

Conclusion: Toward a New Balance of Power in South America

The EU–Mercosur agreement does not conclude a long negotiation process but opens a new phase of geoeconomic competition in South America. It strengthens the EU's position through regulatory alignment, expanded market access, and connectivity tools, without fundamentally displacing existing actors.

From Beijing's perspective, it represents a multidimensional strategic challenge, but not an existential threat. The expected response is one of competitive adaptation rather than confrontation, based on deeper bilateral ties with Brazil and Argentina, expanded cooperation in digital and technological sectors, and continued leverage as a key commodity buyer.

More broadly, Mercosur becomes a space structured by two external logics: a European model grounded in rules and conditionality, and an approach centred on investment and flexibility. The result is not realignment but a layered configuration of influence, where competition and coexistence operate simultaneously across sectors. In this context, Mercosur's capacity to balance these pressures is central to preserving its strategic autonomy in an increasingly complex international environment.

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