



Robert Schuman

Miami-Florida European Union Center of Excellence

EUMA

**The Danger of Stagnation and Crisis in
South American Integration**

Marcos A. Guedes de Oliveira



**EUMA
Vol. 1 No. 3
November 2005**

This publication is sponsored by the EU Commission.

EUMA

European Union Miami Analysis (EUMA) is a by-weekly service of analytical essays on current, trend setting issues and developing news about the European Union.

These short papers (between 2,000 and 2,500 words in length) will be produced by the Miami-Florida European Union Center of Excellence (a partnership of the University of Miami and Florida International University) as an outreach service for the academic, business and diplomatic communities.

Among the topics to be included in the series, the following are suggested:

- The collapse of the Constitution and its rescue
- The British presidency of the EU
- Turkey: prospects of membership
- Impact of the German elections on the EU
- The budget impasse
- Immigration crisis and cultural challenges
- Security threats and responses
- The EU and Latin America
- The EU as a model and reference for inter-American integration
- The Common Agricultural Policy and other public subsidies
- The euro and the dollar
- EU responses to Katrina
- EU image in the United States

These topics form part of the pressing agenda of the EU and represent the multifaceted and complex nature of the European integration process. These short papers also seek to highlight the internal and external dynamics which influence the workings of the EU and its relationship with the rest the world.

Miami- Florida Center of Excellence
University of Miami
1000 Memorial Drive
101 Ferré Building
Coral Gables, FL 33124-2231
Phone: 305-284-3266
Fax: (305) 284 4406
E-Mail: jroy@miami.edu
Web: www.miami.edu/eucenter

Jean Monnet Chair Staff:

Joaquín Roy (Director)
Wendy Grenade (Associate Director/Editor)
Markus Thiel (Associate Editor)
Eloisa Vladescu (Editorial Assistant)
Catherine Cottrell (Editorial Assistant)

**The Danger of Stagnation and Crisis in
South American Integration**

Marcos A. Guedes de Oliveira *

**Miami-Florida European Union Center of Excellence
University of Miami
Miami, Florida
November 2005**

* Prof. Dr. Marcos A. Guedes de Oliveira is Coordinator, Centre of American Studies at the Federal University of Pernambuco, Brazil.

The Danger of Stagnation and Crisis in South American Integration

Introduction

There was a time when we thought that democracy and economic integration were about to be well-established in South America. The European Union (EU) had provided the region with a feasible utopia and showed a new way out of backwardness and towards a democratic society. The end of the Cold War, the final victory of the Western way of life washed away the crippled illusions of a state-centered alternative to capitalism. The democratic transitions in Portugal and Spain successfully offered a clear model to be used as a guideline for the sub-continent countries in order to find their own path in the new era. The ideology of liberal optimism combining the spread of democracy with regional integration initiatives touched the emerging leaders of South America to the point that they abandoned authoritarianism, embraced neo-liberal reforms, engaged in democratic changes and in the revival of regional integration projects.

Less than two decades later it all changed. The shortsighted neo-liberal economic reforms had a limited impact in terms of reducing social exclusion and did not lead to stable growth. The regional integration initiatives have stagnated. There has been no agreement between Mercosur and the EU or Mercosur and the United States. The old authoritarian and statist illusion have reemerged within the neo-populist axis led by Venezuelan President Chavez, Cuba's Fidel Castro and Bolivia's Evo Morales. The recent conflicts involving Chavez with the leaders of Colombia, Mexico and Peru as well as the ongoing rift between Evo Morales and Brazil might represent the onset of a distinct cleavage within the region that could jeopardize all the positive changes that have taken place in the last twenty years. It seems neo-populism, statism and the ideology of pessimism is knocking at the region's door. Why such a sudden change happened? What went wrong?

The creation of Mercosur was the most important international event for South America in the last two decades. The region demonstrated that it wanted to play an active role in the shaping of the Twenty-first century and that it wanted to create a viable utopist framework to upgrade its economy and political life to the level of the developed world. Giving up nuclear ambitions and skirmishes over the use of common energetic border resources, Brazil and Argentina were showing the rest of the world that good diplomacy works and that radical nationalism, populism and statism were things of the past.

Mercosur gave the region an international status it never had. It led the United States to abandon its one-sided project of free trade for the hemisphere and recognize that in order to advance the process it should look at Mercosur and other regional blocs as players to negotiate with. As a consequence of it, Brazil and the United States have co-chaired the negotiations for FTAA and at moments it seemed that they were about to reach at least a limited agreement that would unfold further advances in the process. Unfortunately very little has changed when we compare the 1994 Miami declaration to the 2005 Mar del Plata one. Initial hopes of progress were substituted by feelings of doubts and by a perception of stagnation. The growing of China in the world economy dramatically reduced both the hemispheric and the international impact of a successful free trade agreement in the Americas. In the north, the United States is unable to

deal with issues of migration from the south. Mexico's economy is stalled and the country is looking for other trade opportunities outside the region. In the south, Mercosur and all other economic blocs are in crisis.

The European Union represented not only a model for South American integration but hopes that its broadened integration framework would be essential for South America to deal with its problems of social exclusion and development. EU and Mercosur officials have met and declared their wish to reach a free trade agreement many times. But attempts towards an agreement were always blocked by conflicts over agriculture. For many in South America, both the EU and the United States were trying to have complete access to the sectors of South American economy in which they have competitive advantages without offering a similar compensation particularly in the United States and EU heavily subsidized agriculture sector.

In face of these deadlocks there appears to be two alternatives left. The first one would be to try to reach an overall agreement within the World Trade Organization. The EU, the United States and Mercosur are trying to do that but so far without any breakthrough. The other alternative is inaction. And inaction means stagnation and growing conflicts. Regrettably this seems to be the ways things are going right now in the sub-continent.

To start with let us look at the stagnation of the United States and the EU initiatives to reach free trade with the region. The bilateral agreements between the United States and the countries of Colombia, Peru and possibly Uruguay and Paraguay represent a huge step back to the original free trade project. Its effect in their economies will be quite limited while its main goal is political, in other words it aims at isolating Mercosur and the countries that oppose an agreement with the United States. An action such as this might produced a few immediate benefits; nevertheless it complicates the search for a way out in the long run. The United States and the EU must consider the establishment of free trade agreements with South America as a fundamental move in the direction of the consolidation of Western economic and political values in the region. The return of authoritarianism and economic stagnation, the broadening of social and political exclusion in the region would represent an unbearable setback for all the parts.

Change in modern world comes from outside factors. Brazil as a major player in South America cannot determine alone the tendencies for the region. Brazil itself has not consolidated its democracy as well as its economic reforms. The partnership of the EU and the United States is fundamental for the region to accelerate and consolidate its economic and political reforms.

Let us now look at the situation among Mercosur countries. In the last fifteen years Mercosur has been rightly criticized for having too weak institutions and for depending only on decisions taken at the presidential meetings level. No empowered body or institution has been created to advance the integration process beyond presidential mood. Mercosur has also been unable to decentralize its economic benefits to less developed regions of Brazil and Argentina as well as to Paraguay and Uruguay. Despite much criticism too little or nothing has been done to curb these problems. The way Argentina is dealing with Uruguay's plan to build a factory at their frontier, opposing it and refusing to take the issue into Mercosur dispute mechanism, enhances the view that Mercosur is dying and Kirchner and Lula are not willing to revitalize it.

Let us look at the rise of Chavism. Not surprisingly, inaction has laid the grounds for the return of a populism that reminds us of the worst of Vargas and Peron years. Venezuelan President Hugo Chavez with his petrodollars is the head of the revival of this outdated trend. Messianism instead of charisma, *caudilhismo* instead of leadership, improvised and undemocratic attitudes instead of political action within democratic institutions are some of the key aspects of this phenomena. The disintegration of the Andean Community was its first consequence.

With the initial support of Brazilian President Lula that probably saw in him a trustful ally, Chavez moved to take the place of Cuba's Fidel Castro as the bad boy of the Americas and with the abundance of dollars from his oil industry has started to build up his megalomaniac Bolivarian alternative project for the Americas.

Moving first to exchange oil for Cubans doctors and teachers to serve his clientele and the have-nots of Venezuela and thus strengthening his internal support, Chavez decided afterwards to spend about US\$ 3 billion of dollars with Argentinian debt papers, making President Kirchner his close ally. Chavez knows how to get straight to the point and how to benefit from social exclusion and poverty in the region. His power comes from the failure of the neo-liberal reforms from the 1990s and the stagnation brought about by the lack of free trade agreements between the region and the EU or the United States.

Lately he launched his plan to integrate South America with a multibillionaire gas pipeline that would depart from Venezuela and cross Brazil from the Amazon to the Pampas until reaching Argentina. A very positive initiative if proved feasible. Since no study has been done to measure Venezuelan gas reserves and Chavez insists he has ten times more gas reserves than prospects have shown so far, the pipeline might never be considered more than a piece of populist rhetoric. His search for populist exposure led him to meet with Castro and Evo Morales to announce the formation of ALBA, his alternative Bolivarian regional bloc to FTAA, Mercosur and the Andean Community. The very first action of it was the melodramatic privatization of foreign energy companies in Bolivia and choosing of Brazil as the regional scapegoat to the backwardness of Bolivia. A few days before Evo Morales had declared on a Brazilian TV interview that Lula favored a development based on a mix of public and private economy while he and the Bolivarians support a solidarian economy, in other words, a statist and populist State.

The unfolding of Morales' decision is ringing the bell and indicating that maybe his move is not just a populist scene in order to win the coming elections for the national assembly, as it is being interpreted by the European press. Perhaps it marks the beginning of a clear political division in South America. A division that might be vicious enough to reduce the flow of foreign investment as well as the slow regional move towards regional integration and democracy.