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Latin American Shadowboxing?

FTAA Delays and Challenges for Europe

Günther Maihold / Claudia Zilla

If proof had ever been needed that the United States' Latin America policies had failed, it was provided by the latest Summit of the Americas in Mar del Plata. Washington only just managed to get its prestige Free Trade Area of the Americas (FTAA) project onto the meeting's final statement at all. The Mercosur countries and Venezuela opposed the initiative particularly strongly. Some of the debates over the FTAA revive past battles over questions of opening up markets and redefining the function of the state in the new guise of regional autonomy and self-determination. Europe faces the question of how to respond as Latin America drifts apart, because its current approach of sub-regional cooperation and continental dialogue is definitely running out of steam in the face of Latin America's very real internal divisions.

The debates at the fourth Summit of the Americas in the Argentine city of Mar del Plata on November 4 and 5, 2005, clearly demonstrated that the states of Latin America are divided in their positions on the role of the state and their approaches to integration. Countries such as Mexico and Chile, which see the free trade project as an opportunity to deepen economic cooperation on the American continent, stand opposed to the Mercosur states which—led in particular by Venezuelan president Hugo Chávez—are blocking the project. As a result President George W. Bush's prestige project of guaranteeing political stability and cooperation by bringing economies of the Americas together under the umbrella of free trade is running into ever greater trouble. It has become obvious that the US

administration can no longer base its relations with Latin America on this project alone. Unless Washington makes efforts to strengthen its presence in South America it risks losing its influence there.

Brazil, which remained noticeably reserved in the current conflict, plays a special role. During President Bush's visit to Brasília after the summit, we saw Brazil attempting to carve a niche for itself as a mediator between the strongly ideological positions of Hugo Chávez and the US administration. However, with President Luiz Inácio "Lula" da Silva's government currently weakened by massive accusations of corruption, it is doubtful whether the country will be able to play this role consistently.

The Free Trade Area of the Americas: From Idea to Reality

Since the 1994 summit in Miami it has been obvious that Washington regards a 34-state all-American free trade area as the central instrument for shaping its relations with Latin America. Even though security interests and fighting drug cultivation have joined trade as central concerns, the US administration has remained keen to set clear deadlines for progress toward the goal of expanding the North American Free Trade Agreement (NAFTA) southward. The original completion date of 2005 was missed due to delaying tactics by Brazil and Argentina, as they attempted to resolve the collision between the multilateral negotiations of the WTO's Doha round and the FTAA project by postponing the latter. The Bush administration wanted to give the FTAA new momentum by putting it back on the agenda of the Summit of the Americas, not least in response to a turn to markedly left-wing positions by a number of governments on the continent. But things did not work out the way Washington planned.

The Block of FTAA Opponents

The final declaration of the fourth Summit of the Americas reflects the position of the five South American states that refuse to resume the suspended FTAA negotiations during the first half of 2006. They believe that the necessary preconditions for a balanced and just Free Trade Agreement do not exist. Such an agreement, they say, would have to guarantee effective access

to markets, be free of subsidies and other market-distorting practices, and take account of the differences in levels of development and size of the economies. Without mentioning country or policy by name, item 19 of the final declaration, for which those five states were largely responsible, clearly criticizes Washington's protectionist agricultural policies. However, although Argentina, Brazil, Paraguay, Uruguay, and Venezuela exhibited a united front against the FTAA in Mar del Plata, closer examination reveals specific nuances of form and content of their oppositionist stances. Whereas Venezuela is pursuing a course of frontal opposition, the Mercosur states merely hold a critical position toward the FTAA, with Paraguay and Uruguay showing the greatest willingness to compromise.

Hard-liner Hugo Chávez

The Venezuelan president is the hard-liner among the "five musketeers" as he calls the group of FTAA opponents. At the People's Summit held concurrently in Mar del Plata, Chávez declared that the FTAA project was definitely dead and buried. In his vehement rhetoric against the free trade agreement he was able to count on the support of a broad spectrum of Latin American leftists gathered at the counter-summit. The Venezuelan President's initiative matches his growing role in South America, where domestic troubles are currently preventing Brazilian President Lula da Silva from filling the leadership role that Brazil would love to hold. Chávez, by contrast, is gaining in influence through his country's oil revenues and his regional integration projects. As well as declaring Venezuela's official intentions to become a full member of Mercosur by the end of December, Chávez is also pushing his Alba initiative (*Alternativa Bolivariana para las Américas*) as a Latin American model for fighting poverty, along with subregional projects such as Petrosur (a cooperation agreement in the oil sector) and Telesur (regional television broadcaster sender).

Map 1
Mercosur



Furthermore, his initiatives have established Chávez as a domestic political force within the countries of South America. Broad sectors of society follow his call to struggle against the ruling elites. Consequently, in order to avoid internal political conflict, most Latin American governments have taken a cautious and largely conciliatory stance toward Chávez's invectives.

Argentina's President as the Loud Voice of Mercosur

In the Mercosur region there is broad agreement that an all-American integration process that forced Washington to abandon its protectionist agricultural policies and reoriented the FTAA along European Union lines, could certainly have positive effects for South American agricultural exporters. At the Summit of the Americas Argentine President Néstor Kirchner joined the Brazilian president in refusing to set a date for restarting the FTAA negotiations. He even argued—without success—to keep any reference to the FTAA out of the final declaration.

However, Kirchner does not follow his Venezuelan colleague's fundamental rejection of the FTAA all the way. Instead, the Argentine president borrows from President Bush's own free trade arguments to justify his unilateral demand for a reduction in US agricultural subsidies. However, he avoids addressing the opposite side of the coin: liberalization of the Mercosur market in the fields covered by the Singapore issues (investment, competition, government procurement and trade facilitation). Another position again is represented by Kirchner's Uruguayan colleague Tabaré Vázquez, who signed an agreement for mutual protection of investments with the United States during the Mar del Plata summit despite his opposition to the FTAA.

The EU as an Alternative Model

The European Union again occupied a special position in the Argentine president's discussion of integration issues at the Summit. In South America the EU is regarded as a successful paradigm for integration that takes into account structural asymmetries between the member states and gradually overcomes them through redistribution mechanisms, infrastructure projects, and varying speeds of integration. Just as Germany and France have assisted the smaller European economies, supporters of this line believe that the United States—as the strongest economic power in the region—should take responsibility for the weaker and less developed states. Adhering to this line of argument, Néstor Kirchner calls for the FTAA to include a compensation mechanism like the European structural and cohesion funds. In particular, the Argentine government argues for integration at different speeds, pointing out that Britain was allowed to stay out of the euro zone while remaining a member of the EU. The Mercosur states oppose the partial opening demanded by Washington, calling it “naive,” and would prefer to follow the EU's example of “clever and selective integration.”

Brazil as Mediator

Brazil is more enthusiastic about the association perspectives than Argentina. Although Lula shares the same basic line on the FTAA as his colleagues Kirchner and Chávez, he deliberately treads more carefully and maintains more cordial with the American president. Lula avoided open confrontation with Bush in the interests of a “privileged strategic dialogue” between Brazil and the United States. In Brazil there are currently no significant political or social groups that would expect or demand the government to use inflammatory rhetoric against the United States. According to the 2005 *Latinobarómetro* survey of public opinion in Latin America, the Argen-

tinians hold the most negative opinions about the United States, with Brazil ranking in the middle of the scale. Whereas anti-Bush demonstrations in Argentina left a trail of damage and injuries, not one window was broken during Bush's state visit to Brazil.

Lula resists overinflating the FTAA issue, which casts a shadow on his country's currently relatively harmonious bilateral relations with the United States. Consequently he also left Mar del Plata before the tough negotiations over the final declaration had been brought to a conclusion.

Bush sees his "friend" Lula as the president of a regional power who takes on the role of a mediator between north and south and exercises a stabilizing function in the region. Washington sees the Brazilian president as a reliable partner in Mercosur and in the group of South American states that has not yet concluded a bilateral trade agreement with the United States, and also assigns Brazil—the largest Latin American country—a central mediating role on the basis of its active neighborhood policies. This applies above all to the Andes region, which will gain in importance after expected election victories in December for Hugh Chávez's MVR (Fifth Republic Movement) in Venezuela and Evo Morales in Bolivia.

Lula and the Brazilian diplomatic service meet these expectations with a moderate smart and soft approach on the international stage, which contrasts with Hugo Chávez's pugnacious anti-Bush stance and Néstor Kirchner's loud IMF-critical rhetoric. Item 8 of the joint declaration made during Bush's state visit to Brazil deviates from the joint "Mercosur plus Venezuela" position at Mar del Plata in its reiteration of both countries' interest in progress in the FTAA process. The declaration also underlines the importance of integration initiatives in South America—Mercosur and the South American Community of Nations—as instruments for promoting development, stability, and democracy in the region. As was to be expected, no mention was

made of the Venezuelan Alba project in this context.

The End of Latin American Unity?

While Mexico and Chile continue to advocate open markets and the development of competitiveness for the sake of integration in the international economy, the majority of Mercosur states place more weight on protecting their economies through import duties and favor open markets only for those agricultural products that they regard as competitive (meat, soy beans). This conflict has serious consequences for Latin America:

- ▶ The Mercosur states have increasingly "defined Mexico out" of Latin America, characterizing it as an economic appendage of the United States in NAFTA, and thus a part of North America.
- ▶ When Venezuela joins Mercosur this will strengthen the position of those who want to concentrate on developing the internal market in South America. The only remaining opponents of such a course are Chile and Columbia, both of which are already or will soon be tied to the United States by bilateral free trade agreements, and thus orientate themselves on a different economic model.

So it comes as no surprise that the Mexican president declared during the negotiations in Mar del Plata that one could also imagine an American free trade area involving only those 29 states that are willing to join. That would of course explicitly exclude Venezuela and the FTAA-critical Mercosur countries, and the proposal unsurprisingly provoked strong reactions. The verbal exchange of blows between Vicente Fox and Chávez continued after the end of the summit. After Venezuela made accusations against the Mexican government both countries recalled their ambassadors. Mercosur's offer to mediate between the adversaries suggests that the crisis between these two states has reached a critical point.

The recent developments also reveal the disintegration of the Andean Community, one of whose symptoms is its members' inability to resist the pressure to align with either Mercosur or the United States. While Bolivia became an associate member of Mercosur in 1997 and Venezuela will be accepted as a full member of the South American common market before the year is out, Columbia is by contrast closely tied to the United States by a bilateral trade agreement and cooperation through the *Plan Colombia*. However, diverging trajectories of integration are not the only troubles facing the Andes region, which is also suffering political and institutional crises, the erosion of representative institutions, and processes of state disintegration.

Map 2
The Andean Community



Such a scenario affects the EU particularly strongly, because Union's strategy is one of subregional cooperation. Homogeneity and harmonization within Latin America are becoming increasingly threatened. As a result, the EU is forced into a fundamental reconsideration of its policies towards Latin America. The European concept of interregionalism as the standard pattern for cooperation with Latin America runs into limits set by the redistribution of leadership roles and the disintegration of the Andean Community. The drawbacks of the concept of group dialogue as practiced to date are particularly obvious in cooperation with the Central American states in the San José process and the Caribbean members of the ACP group. The EU Commission is often no longer able to attract representatives of

the EU member states to the high-level dialogue forums. The planned political exchange degenerates into a meeting of the responsible civil servants. Policy-based cooperation seems to be more important for these partners in the medium term.

In recent months the Organization of American States (OAS) has undertaken attempts to rein in the centrifugal forces in Latin America and to promote cooperation based more strongly on shared political concepts. Under its new Secretary General, José Insulza, it has the potential to become a much stronger unifying force for Latin America than it has managed to be to date. Here there are possibilities for deeper cooperation that Germany and Europe should investigate in order to move a step closer to their goal of project-orientated cooperation with Latin America and the Caribbean—in conjunction with the states of North America.

The FTAA Postponement— An Opportunity for Europe?

The consequences of the division of Latin America along the fault lines of free trade and relations with the United States are of great importance for the future development of the continent and for its relationship with the European Union. The Union is confronted with three challenges. It must

- ▶ Reexamine its Latin America concepts;
- ▶ Achieve progress on trade liberalization and association agreements;
- ▶ Respond to developments in Venezuela by offering attractive alternatives to the countries of the region.

The combination of a subregional approach with continental dialogue in the Rio Group framework needs to be replaced by a graduated dialogue structure with those states capable of active global foreign policy and a more policy-based exchange with subregional units. There should also be overarching project-based cooperation with the partners in the region.

New Concepts for a Heterogeneous Latin America

It is often said that Latin America can be divided into a northern part aligned more strongly with the United States and the Mercosur which is more orientated on co-operation with the European Union. Here, however, the underlying geopolitical and geoeconomic analysis is inadequate to the extent that it takes into consideration neither that the United States is Mercosur's second most important trading partner after the EU nor that Washington also has massive non-economic interests in South America, whether in relation to narcotics policy, fighting terrorism, or securing influence on political events in increasingly left-leaning societies.

In this context, dealings with Latin America will call for a differentiated concept that gives greater consideration to the different constitutional concepts, inter-American relations, and the governments' differing ideological positions and interests. Europe will be unable to bring about meaningful and fruitful cooperation simply on the basis of the existing subregional approach addressing particular groups of countries. The Union's external relations will have to adapt to the changing balance of forces and the new heterogeneity. New wind is urgently needed in the format and content of political dialogue if the existing contacts are not to wither in the maze of diverging individual interests of Latin American states.

There are two obvious options. Firstly, foreign policy dialogue—currently restricted to talks with the Rio Group—must be expanded by additional bilateral contacts (with Brazil, Mexico, Chile, and Argentina) above and beyond the subregional units. Secondly, thematic cooperation should be pursued in those fields of policy that allow action to be combined with an intensification of exchange at the bilateral level.

Break the Negotiating Stalemate

Transfer know-how for Mercosur or a future FTAA is by no means the European Union's only potential contribution in Latin America. It can also play a role in breaking the stalemate that is currently blocking bilateral and multilateral trade liberalization. By waiting for the Doha round, both Mercosur and the European Commission are impeding progress in the negotiations over the FTAA and an association agreement. Washington, for its part, refuses to budge an inch before the EU has given ground on the agriculture question.

In view of the modest prospects of the WTO's next round of talks in Hong Kong, the question of the future of the integration projects must be raised. The European Union could exploit the current shake-up of integration policies in Latin America to reposition itself and set new accents in cooperation, for example through dynamic promotion of the free trade agreement with Mercosur. In the case of the Andes region, an association agreement between the European Union and the Andean Community no longer seems plausible. In view of the disintegrative tendencies and the heterogeneous political and economic orientations within the group of five Andean states, the EU should explore whether bilateral trade agreements could be implemented. Relations between the EU and the group of Central American states that sought closer ties to the United States through the Central America Free Trade Agreement–Dominican Republic of August 2004 (CAFTA-DR) are similarly problematic.

Critical Engagement with Neopopulism

The backward-looking positions of certain Latin American governments should be clearly rejected, because the solutions of the past are of no use for overcoming the problems of the present. To that extent, in its dialogue with Latin America on the role of the state, Europe should avoid getting involved in alliances that have no future. This applies not least to the Venezuelan

governments' plans to establish state enterprises on the regional scale. The countries of South America need an attractive medium-term alternative to the superficially attractive "generosity" of the Latin American oil state. But as well as creating incentives, the costs of unreflected friendship with Chávez should be increased too.

Without such a repositioning, Europe's Latin America policies could quickly suffer the same fate as Washington's—falling victim to Latin American shadowboxing.

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