The Americas: Disintegration or Diversity?

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US-Latin American relations are perhaps at their lowest point since the end of the Cold War. Latin America disappeared form the U.S. radar screen after 9/11; since then, Washington has paid sporadic attention to perceived security problems in the region, mainly in Venezuela, Colombia and Mexico, and to electoral outcomes in countries such as Nicaragua. The "somber climate" of US-Latin American relations is accompanied by an increasingly diverse, or even divided, Latin America.

The end of the Cold War and the advance of free market globalization naturally led Latin American nations to diversify their external ties. The rigid East-West conflict alignment gave way to a mosaic of contacts, agreements and bilateral and sub-regional initiatives. All of this has had an important impact on Latin American integration and on inter-American ties.

Plowing the Sea?

Today, Latin American integration is fragmented into diverse bilateral and sub-regional free-trade or economic complementarity agreements, both within the region and with extra-regional partners. Most, if not all, traditional integration schemes and institutions face crises or have been severely criticized by their members. After 50 years of integration efforts, intra- Latin American trade only adds up to 25 percent of total trade, while intra-European trade amounts, by contrast, to 65 percent. In addition, the classical separation between Mexico and Central America, on the one hand, and South America, on the other, has been accentuated by the CAFTA agreement between Central America plus the Dominican Republic with the United States, and, in turn, by the creation of the South American Community of Nations (CSN)

The regional realignment process has included Venezuela's departure from the Andean Community in April 2006, which President Hugo Chávez pronounced dead after criticizing the completion of a free trade agreement between the U.S. with Peru and Colombia. Likewise, President Evo Morales of Bolivia faulted Peru, Colombia and Ecuador for supposedly destroying the CAN by negotiating free trade deals with the U.S. President Chávez also declared that he intended to rescind Venezuela's trade pact with Mexico and Colombia, but he succeeded in obtaining full membership for his country in Mercosur, though he had previously questioned the sub-regional bloc. When referring to the Brazilian-inspired South American Community of Nations (CSN), the Venezuelan president had stated that the CSN was bound for failure because it was based on the convergence of Mercosur and the Andean Community, both schemes -in his words- born "under the wing of neo-liberalism"

President Tabaré Vasquez of Uruguay has asserted that Mercosur was "more of a problem than a solution" for his country and suggested that he would welcome and exemption from the bloc to negotiate separate free trade agreements, including with the United States. Montevideo's position can be explained by the fact the Uruguayan exports grow more vigorously towards the world in general than within Mercosur (17.2 percent vs. 4.3 percent respectively in 2005 as compared to the previous year). Paraguay has questioned repeatedly the benefits of Mercosur. Argentina, in turn, filed a lawsuit against Uruguay at the International Court of Justice in The Hague over two controversial paper mills ($1.8 billion) under construction on the Uruguayan side of the border judged, by Argentines, as environmentally unsafe.

The intra-Latin American and inter-American differences were evident at Mar del Plata fourth Hemispheric Summit in November 2005, when proposed negotiations for even a modest proposal towards a Free Trade Area of the Americas (FTAA) failed, leaving 29 governments in favor and 5 opposed. The regional rift was symbolized in the verbal dispute between President Chávez and President Fox of Mexico, when the Venezuelan leader called Fox "a lapdog" of the Bush administration for supporting the FTAA proposal, causing bilateral diplomatic tensions.

President Evo Morales decided that Bolivia would join ALBA (The Bolivarian Alternative for the Americas), established by Venezuela and Cuba in 2004, which seeks a People's Trade Treaty (TCP). In short, the ALBA is the alternative to ALCA, and the TCP to the hemispheric TLC. Adding to the fractured Latin American scenario, Bolivia, an associate member of Mercosur, placed a strain on relations with Mercosur neighbors Brazil and Argentina when the Morales government mobilized troops to seize foreign energy companies, including Petrobras, at the time it decided to nationalize its natural gas industry.

The energy field, which offers great prospects for regional integration, has proven elusive. After the Bolivian nationalization of its natural gas, Brazil announced it would seek energy security through intense efforts to develop bio-energy, increase the role of nuclear energy and build re-gasification plants. Likewise, after Chile suffered repeated cut-offs in the supply of gas from Argentina, despite existing bilateral accords, the Chilean government opted for energy security by building the first re-gasification plant in South America, at a cost of $ 400 million, which will be operative in 2008.

An invisible integration

The Latin American kaleidoscope of institutional differentiation is, in the last analysis, the result of increasing global interdependence and technological change. Countries cannot pass up opportunities in the name of arrangements that promise unsure long-term fruits. Most integration schemes in Latin America responded to the import–substitution model which was eroded by globalization, giving way to free trade deals. Likewise, new global actors with growing presence in the region, as is the case of China, have led to trade agreements like the one signed recently by Chile and China.

Is integration a chapter of the past in Latin America? Not really. We are witnessing the reaffirmation of "open regionalism" and pragmatic, modular approaches to integration. That is, bilateral free-trade agreements between Latin American nations may be accompanied, for example, by a trade deal with China or India, a free-trade agreement with the U.S., and a sub-regional trade accord with the European Union.

Moreover, there is a silent non-institutionalized integration in Latin America. Millions of new telephone lines criss-cross the region, TV-networks and newspaper chains have emerged to connect Latin America, and countless businesspeople invest heavily in neighboring countries.

Latin American businesspeople not only look North in search of economic deals but also view their future in the neighboring countries, where they can be more competitive. Increasingly, South American entrepreneurs are interested in the Bovespa and Merval stock exchanges and not solely in Wall Street. Chilean corporations have invested well over $7 billion in Argentina, in sectors ranging from energy to supermarkets and wineries. Likewise, Chilean private investments in Brazil, Colombia, Peru and Venezuela continue to expand, while Brazilian or Argentinean companies cross the Andes to conduct business in Chile. Similarly, efficient institutions like the Andean Promotion Corporation (CAF) continue funding integration projects raging from bi-oceanic corridors and infrastructure to energy linkages.

Lastly, It should be recalled that some institutional integration schemes, like Mercosur, transcend the purely trade dimension and constitute also a political, cultural and security arrangement (that in Mercosur's case consolidated strategic understanding between Brazil and Argentina). Also, despite the differences over the gas issue between Chile and Argentina, in early September 2006, Presidents Néstor Kirchner of Argentina and Michelle Bachelet of Chile agreed to reconstruct the trans-Andean railway --inaugurated in 1910 and closed in 1984 when both countries went through a period of distancing--, that will communicate cities and communities on both sides of the border.

Future Latin American integration efforts may have to rely increasingly on the EU's experience and practice of variable geometry and multiple speeds to reflect the heterogeneous nature of the region's integration accords. Moreover, without a patient process of macroeconomic convergence and financial information-sharing, it will be difficult to construct coherent integration schemes based on common policies.

The US-Latin America Rift

During recent years Washington has tended to overemphasize the supposed emergence in the region of a supposed anti-American axis led by Venezuela, supported by Cuba.

There is no such axis; nor is there a single, comprehensive development model in the region. Latin America, however, is more diverse than in the past, and this is a reality that will endure for some time. Despite the varying degrees of closeness to Caracas by different Latin American governments, they do not view, perhaps with one exception, the Bolivarian revolution as a model to follow, unlike what was the case with the Cuban revolution during the Cold War period.

Many Latin American and Caribbean nations have cordial relations with President Chávez for pragmatic reasons based on their own national interests, or energy needs. Latin American nations, in short, do not want to be forced to choose between either Venezuela or the United States.

Venezuela's Bolivarian revolution has uncovered the failure of traditional political parties in the region and of elites unconcerned with socio-economic challenges of poverty and inequality which have remained, and even deepened, in many countries of the Continent. In other words, economic reforms have not been followed by second-generation reforms in the institutional and social spheres.

But, despite the strong rhetoric, there is more pragmatism that meets the eye. Venezuela's state oil company PDVSA has been supplying the U.S. energy market with 1.2 million barrels-per-day of refining capacity. CITGO Petroleum Corporation, also a Venezuelan subsidiary, has a network of 13,000 independently owned retail locations in the United States, and employs approximately 4,000 American workers.

Venezuela-U.S. trade is booming. Between 2001 and 2005 Venezuelan exports to the American market soared from $15.2 billion to $34 billion; and it was not only oil, as Venezuela's sales of iron, steel, and vehicles also rose considerably. In turn, U.S. exports to Venezuela increased in the same period from $ 5.6 billion to $6.4 billion. Clearly, the Venezuelan economy is intertwined by stronger ties with the U.S. than is the case with many other Latin American nations.

All rhetoric aside, and considering the nuances of economic policies in the Hemisphere, economic prudence prevails. The maintenance of sound macroeconomic conditions and stable economic environments are widely shared. Hyperinflation that characterized Latin America for decades has disappeared and economic growth, though uneven, was the highest in 2004 as compared to the previous 24 years.

But Latin America nations have different agendas from those of the U.S. While Washington would like to have unconditional allies in the war on terrorism, Latin Americans view their security threatened by growing crime, poverty, inequality, drug-trafficking and migration problems.

Though at the outset of the Bush administration in 2000, Latin America, and Mexico in particular, was highlighted as the priority region in U. S. policy, stressing democracy and free markets, the 9/11 attacks made the war on terrorism the cornerstone of American foreign policy, subordinating all other issues. Latin America became largely irrelevant in the new U.S. strategy. The U.S. emphasis on terrorism and security highlighted the importance of Colombia, where a war against drug-trafficking and leftist guerrillas became a war against terrorism, with the consequent flow of resources to the Bogota government. Border security with Mexico also turned into an important matter in the regional context.

In this same line, the Bush administration conditioned military aid to countries of the region, including those that had traditional close ties with Washington, to their attitude regarding the International Criminal Court treaty, demanding special exemptions from prosecution for U.S. personnel stationed in those countries.

On the other hand, the United States expected Latin American nations to endorse its war against Iraq, and was disappointed by the refusal of Chile and Mexico in the U.N. Security Council to support its stand. Only the Central American nations, and Colombia in South America, supported the “coalition of the willing” led by the U.S. in Iraq, although Costa Rica later formally withdrew its support and those Central American or Caribbean countries which contributed symbolic troops withdrew them almost without exception.

There continues to be a rift between Latin America and the United States on matters pertaining to international law and unilateralism. One clear example is that, independently of their respective bilateral ties with Washington, Latin American countries have a unified negative position regarding the U.S. drug-certification policy and the Helms-Burton legislation and its extra-territorial measures that attempt to impede that companies from Latin America, or other regions of the world, conduct business with Cuba.

Democracy and the rule of law continue to be common ground between Latin America and the U.S., as reflected in the Organization of American States’ Inter-American Democratic Charter, approved in Lima in 2001. But Latin American democracies are fragile, as many opinion polls reveal. Democracy is much more than holding regular free elections. Democracy must deliver in response to the legitimate aspirations of the people. Citizens expect to reap the benefits of economic growth, and they too often do not see the benefits of democracy in their daily lives, in terms of better education, health and greater social inclusion. Here is where differences emerge within and across the Hemisphere.

The North-South divide in the hemisphere seems to be a U.S. emphasis on the institutions of democracy, which indeed need to continue to be reformed and strengthened, versus the Latin American search for democracy’s effective response to mounting social demands which require investment in the people. This means, in turn, that Latin Americans view the role of the State differently from U.S. authorities. For economic policies to bear fruits for all, Latin Americans tend to believe that those policies must be accompanied by <u>more</u> State, or a more active State, not <u>less</u> State or a reduced State, to enable the implementation of strong and well-targeted social policies to remedy the weaknesses and insufficiencies of the market.

Despite the political differences between Latin America and the US, most governments of the region are interested in working and getting along with the U.S. Though the FTAA no longer commands the interest it once did in the Americas, hemispheric integration is a powerful force that continues to express itself through sub-regional of bilateral free trade agreements, and in the recognition that the U.S. is the most important source of capital and technology for Latin America.

Moreover, the U.S. and Latin America are more interconnected than ever through business ties, university and NGO activities, migration and remittances and compatible value-systems.

Over 50 percent of U.S. migrants come from Latin America and towards 2050, 25 percent of the American population will be of Hispanic origin. Remittances from Latin American workers in the U.S. to their families reached $ 32 billion in 2004, double the volume of all foreign aid and loans received that year by the region. Meanwhile, growing numbers of American seniors retire and settle in countries like Mexico, Costa Rica or the Dominican Republic. Such a reality of interdependence clashes with the construction of a fence in the U.S. border with Mexico, financed by homeland-security funds, which has been criticized widely by Latin American governments.

Latin America and the U.S. can work together on humanitarian crises like Haiti, where a U.N. Peacekeeping force (MINUSTAH) composed basically by forces coming from Brazil, Chile, Argentina, Peru, Ecuador, Bolivia and Guatemala, has contributed to a tenuous peace in that Caribbean nation.

Washington seems to pay little serious attention to the region as hemispheric structural ties deepen. U.S. exports to the region total more than $150 billion a year, thus creating jobs in the U.S. which compensate American jobs losses to other regions of the world.

In the end, what is now perceived as a rift in inter-American relations is perhaps simply the return to the traditional lack of U.S. attention to Latin America, except at moments of crises in the region when American interests are perceived to be at risk. In this sense, U.S-Latin American ties under the Bush administration have not been much different than under previous administrations.

A more active U.S. engagement in the region, though, would probably reduce present mistrust and distance towards Washington in the region, and could take advantage to build upon the common values and interests that indeed do exist throughout the hemisphere.

Ambassador of Chile to the United Nations. The views expressed in this paper are those of the author's and they do not, necessarily, represent the views of the Government of Chile.