A President Comes to Visit and the Chickens Home to Roost in South America

This week, President George Bush will be in Uruguay on the latest stop of his Latin America tour. The purpose and nature of his meeting with President Tabare Vasquez -- and the presence of Venezuelan President Hugo Chavez in Buenos Aires to protest it -- say a great deal about how much U.S. relations in South America, and indeed around the world, have changed since Bush and Dick Cheney were re-elected just over two years ago.

Here in Argentina, Nestor Kirchner had been elected president a year earlier amidst the virtual collapse of an economy that had been the model of the International Monetary Fund's formula of wholesale privatization, deregulation and liberalization. Riding a wave of popular protest that has brought to power governments in Venezuela, Brazil, Uruguay and, more recently, Bolivia and Ecuador that promised a different economic future for their countries and region, Argentina was in 2005 still in considerable debt to the IMF. In fact, at that time about 80 percent of the IMF's portfolio was in Latin America. And the United States was still pressing for the creation of a Free Trade Area of the Americas that would effectively extend NAFTA to the rest of the hemisphere.

Today, the FTAA negotiations are on life support, having been dealt a virtual death blow by Brazil, Argentina and their neighbors at the late 2005 hemispheric summit in the Argentine beach resort of Mar del Plata. And IMF lending to Latin America has fallen so precipitously that it now constitutes less than one percent of the fund's portfolio. As the influence of the United States and the IMF recedes, South America's common market, the Mercosur, is growing in size and strength, and most of the governments on the continent have reintroduced mixed economies with varying degrees of state involvement.

What factors account for this rapid and profound economic change? The first is the utter failure of the U.S. government – Republican and Democratic administrations alike – to use the opportunity presented by the decline and dissipation of the Soviet Union to play a constructive role in the hemisphere's and global economy as the world's only superpower. Catering to the avarice of its major corporations for ever greater profits, the United States has used its unchecked power and its effective control of the IMF and World Bank to transform most of the economies of the South into low-cost production platforms. While poverty and inequality, along with environmental destruction, have been the most widely noted results, with workers, in the South and North, being the major victims, the widespread destruction of locally owned businesses by free trade has, along with other imposed policies, destroyed the industrial and agricultural productive capacities of many Southern countries.

The influence of China and Venezuela

These developments engendered protracted popular protests and mobilizations until a critical mass of Southern governments finally took a stand and rejected a proposed global trade accord in Seattle in 1999, a situation that has remained unchanged to date. Yet the IMF and World Bank, working as a cartel with Northern governments and private banks, remained the only significant financing options for governments until the other major change occurred: the sudden emergence of China and Venezuela as influential actors on the world stage. The former's thirst for natural resources has been matched by the desire of governments across the South to escape the IMF's crippling grip. As China provides markets and loans without economic or political conditions, opportunities for, and dependencies on, the United States and its corporations have decreased. Cries from the U.S. about China's perpetuation of undemocratic regimes in, for example, Africa ring hollow when the U.S. imposed on the continent one economic plan after another that has denied Africans the opportunity to pursue their own development.

But the most remarkable turnaround has taken place here in South America, where, on top of the political impact of organized movements and the considerable influence of China (which now purchases, for example, about eight percent of Argentina's output), oil-rich Venezuela has played a transformative role. Thanks to Venezuela's purchase of its bonds, Argentina has been able to eliminate its obligations to, and dependence on, the IMF, and the Chavez government has moved to similarly assist other countries in the region and to create a permanent financing alternative in the form of a Bank of the South. In so doing, and by financing key national projects and companies, it is enabling countries to forge their own development paths, all of which, like Venezuela's, are grounded in a market economy. They differ in the extent to which key sectors are being brought back under state control, in the degree to which other sectors are being again regulated, and in the nature of the new rules that ensure that the state shares fairly in the profits of foreign investors. What virtually all the countries of the region share, indeed what defines the region today, is a rejection of the so-called "Washington Consensus" under whose cloak of free-market ideology the people of Latin America lost control of a major part of their nations' assets, or patrimony, to foreign special interests.

The ascendancy of the Mercosur

It is upon that common base that Venezuela is helping to expand and strengthen the Mercosur, to instill in it a greater emphasis on social equity, and to enable it to assert its independence effectively vis-à-vis the United States and in its relations with the rest of the world. Having recently joined Brazil and Argentina as the Mercosur's most powerful members, Venezuela has committed to financing mega-energy and other infrastructure projects to help integrate the continent. For these efforts to be successful, however, the big three must find a way to accommodate the concerns of the smaller members, Uruguay and Paraguay, as well as those of Bolivia, likely the first of the handful of Andean associate members to join, perhaps by the end of this year. These concerns relate to the disadvantages experienced by smaller economies playing by the same rules as their larger partners.

In the case of Uruguay, disagreements within the Mercosur have been exacerbated by divisions within the Uruguayan government and by bilateral conflicts between Uruguay and Argentina. The latter disputes include Argentine opposition, for environmental reasons, to a major, prospective Finnish paper-mill investment on the river that divides the two countries (a dispute that Spain will try to mediate later this month) and Argentine charges that Uruguay, a growing financial center, is not cooperating fully in the fight against money laundering and the financing of terrorism. Though led in part by former revolutionary leaders, Uruguay's governing

Broad Front includes a faction that would prefer that the country throw its economic lot in with the United States, creating tensions within the Mercosur and with its other members.

It is these frictions that the Bush Administration is trying to exploit with the president's visit this week, as it seeks to undermine the strength of the Mercosur and the influence that Venezuela is exercising through it. Unable to negotiate the creation of a U.S.-corporate-dominated FTAA, the Administration would like to pull Uruguay out of the Mercosur by signing a bilateral free-trade accord based on an existing trade and investment framework agreement between the two countries.

Countering U.S. efforts to create rifts

To head off this move, Brazil's president, Lula da Silva, flew to Uruguay last week and offered Vasquez, with Argentine support for the first time, more flexible trading terms (including more lenient rules of origin for smaller countries) in the Mercosur and with countries and blocs outside it. In return, Vasquez publicly committed to keep Uruguay within the Mercosur and not to take any action with the United States that, by Mercosur statute, would require its departure.

Once back in Brazil, Lula also made it clear that, in his meeting this week with Bush (focused primarily on advancing a joint biofuel initiative and on global trade), the U.S. desire to have the more moderate governments in the region help "contain" Venezuela would not be on the agenda. Kirchner also rejected this U.S. request when he was visiting Chavez in Venezuela earlier in February. Putting pay to suggestions in the U.S media that Chavez' political rhetoric, agenda and actions are causing strains in the Mercosur, Kirchner in fact invited Chavez to Argentina to lead protests with the country's popular groups during and against Bush's visit to Uruguay -- a move that cannot help but assist Kirchner (or his equally popular wife, Cristina, who may run instead of him for the presidency) in this election year.

In the battle for the soul of South America, the Bush Administration appears to be running out of diplomatic moves. In fact, given the resistance on the part the Democratic Congress to the cosmetic changes proposed by the Administration in the labor chapters of U.S. trade pacts, it is difficult to see how any such accord with Uruguay, even it were still a prospect, could be ratified. The very nature of the trade agreements promoted by the United States since and including NAFTA, designed as they are to maximize U.S. corporate penetration and profits at the expense of equitable development and workers' rights and wages, indicates the unlikeliness that any meaningful labor proposal will be forthcoming from the Administration and that there will be any movement, should Congress stick to its guns, on even those agreements already signed and pending approval.

It is no secret nor surprise, therefore, that the Argentine government is already in dialogue with leading Democrats on these matters. Its short-term agenda, and that of its progressive neighbors in the region, is clearly to maintain over the next two years the space required to continue to build a strong and stable Mercosur. For the longer term, it is to be hoped that the Democratic Party will come to understand the advantages for U.S. citizens, workers and corporations alike of building a true partnership with a prospering, more internally equitable, Mercosur desirous of U.S. investment and trade on terms beneficial to its members and their citizens.

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