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MERCOSUR

Analysts: Chávez's influence not assured

With Venezuela's entry to the Mercosur trading bloc, President Hugo Chávez will try to pull his neighbors away from the Free Trade Area of the Americas. But analysts say he is unlikely to succeed.

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BOGOTA - Venezuelan President Hugo Chávez's formal entry last week into Mercosur, the trading bloc that includes powerhouse Brazil and Argentina, is part of his plan to steer Latin America away from U.S. influence, analysts say. But it's far from clear whether he will succeed.

"From a political perspective, this is important," said Mauro Leos, an analyst for Moody's Investor Services in New York. "But Brazil, for instance, does not seem to share [Chávez's] ideas with regard to how they will deal with the United States."

As it has for decades, the question of U.S. economic relations looms large for Latin America. Washington is pushing for a continent-wide Free Trade Area of the Americas, and already has signed or negotiated bilateral free-trade pacts with nine countries.

However, Chávez, a leftist populist, is trying to pull his neighbors away from FTAA, and clearly hopes the Mercosur trading bloc of Argentina, Brazil, Uruguay and Paraguay will be the counterweight.

"We are defeating the hegemonic pretensions" of the U.S. government, Chávez said during the Mercosur joining ceremony held in Caracas.

With Venezuela aboard, Mercosur has three-quarters of South America's GNP and the world's fifth largest oil producer. Venezuela, which already has bought some \$1.5 billion in Argentine bonds, also announced that with Buenos Aires they will issue a "Bond of the South" that could amount to \$1 billion and may lead to a regional government bank. The Mercosur nations also reaffirmed their intent to build a 5,600-mile natural gas pipeline from Venezuela through the Southern Cone.

"Now Mercosur has the water, biodiversity, oil, natural gas, steel, minerals, diamonds and an important cultural and sporting culture," Chávez said.

Chávez has pushed his trade agenda beyond Mercosur, offering subsidized oil for the Caribbean and refinery upgrades in Uruguay, Jamaica and Cuba. Venezuela and Brazil also are talking about building a refinery; Ecuador may refine some of its oil in Venezuela.

"He's been using oil as a leverage to put pressure on countries to support him and his ideas," said Leos.

However, holes in Chávez' plan are already becoming evident, analysts say.

Venezuela's economy has very few ties to the Southern Cone, meaning its entry into Mercosur gives its exporters little relative gain. In addition, its producers may be hurt by a sudden influx of goods from neighboring Brazil, a fast-growing economic powerhouse, analysts say.

There is also discord among Mercosur members over how to handle some energy issues. Recently, Brazil officials privately blamed Chávez for advising Bolivian President Evo Morales to nationalize the natural gas industry in that country, which harshly impact Brazilian investments in Bolivia's gas industry and drove up gas prices for both Brazil and Argentina.

Perhaps most important, Mercosur nations are not of one mind when it comes to trade with the United States. Uruguay already has said it is interested in a bilateral free-trade pact with Washington, and Brazil has not ruled out an eventual agreement on the FTAA, as Chávez has.

"Each country should maintain its relations with the United States," Brazilian President Luiz Inácio Lula da Silva said last week.

Outside of Mercosur, Ecuadorean President Alfredo Palacio kept Chávez at arm's length during a recent visit to Quito, and Colombia and Peru are in the final stages of finishing their bilateral trade pacts with Washington. In the Caribbean, Trinidad, a major exporter of natural gas, has expressed concern about Chávez' oil discounts, which would compete with its own industry.

Chávez's plans to break the other major trading bloc in the region, the Andean Community of Nations, also appears to have failed. He abruptly left CAN in May, citing Peru's and Colombia's recent free-trade agreements with the United States. But Bolivia decided to stay in, along with Colombia and Peru, and Chile has expressed interest in joining.

"He's suffered some interruptions in recent weeks," said Enrique Alvarez of the IDEAglobal consultancy firm in New York. "He's had to reconsider where he has the most influence and where he should put the most emphasis."