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THE OPPENHEIMER REPORT

South America's union dream is falling apart

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BOGOTA -- How ironic!

Less than two years after South American presidents signed a solemn declaration proclaiming the birth of a 10-country Community of South America, which was supposed to become a European Union-like economic bloc, the region is more divided than ever.

While Argentina and Uruguay are going through their worst fight in recent memory over Argentina's objection to a European paper mill investment that Argentina says will pollute its border and Chile, Bolivia, Peru and Ecuador are periodically quarreling over century-old land disputes, Venezuelan President Hugo Chávez's surprise decision to quit the Community of Andean Nations last week has triggered one of the fiercest barrages of mutual accusations ever among South American leaders.

Far from the South American Community that would unite Andean and Southern Cone countries into one single bloc, announced with great fanfare on Dec. 9, 2004 in Cuzco, Peru, South America has become a region on the verge of political and economic breakup.

CHAVEZ'S PULLOUT

On April 19, Chávez announced Venezuela's decision to leave the nearly four-decade-old Andean Community -- made up of Venezuela, Colombia, Ecuador, Peru and Bolivia -- because of Colombia's and Peru's decision to enter free-trade agreements with the United States. Chávez said that Colombia and Peru will be swamped by "super-subsidized" U.S. goods, which would allegedly hurt Venezuelan exports.

He said Venezuela would team up with Mercosur, the Southern Cone group led by Brazil and Argentina, which has not signed free-trade deals with Washington. Simultaneously, Venezuela, Cuba and Bolivia announced this week that they will sign a People's Trade Agreement in Havana on Saturday.

Chávez's decision to withdraw from the CAN fell like a cold shower on Colombia, which exports \$2.1 billion a year to Venezuela under the CAN trade agreement. Now,

Colombia's exports to Venezuela will be at the mercy of Chávez's political whims, Colombian business people say.

Colombia's President Alvaro Uribe called on Venezuela "not to get stuck in ideological debates over [political] models." He noted that Chávez sells 1.5 million barrels of oil a day to the United States, adding that Venezuela "should allow other brotherly countries to enter the U.S. market, just like they do with their oil."

MORALES JUMPS IN

Simultaneously, Bolivian President Evo Morales, a close ally of Chávez, jumped into the battle earlier this week, saying that Peru's President Alejandro Toledo, who is of Indian ancestry, "committed treason not only to Peru's Indians, but to all of Latin America," by signing a free-trade deal with the United States.

In a telephone interview Tuesday, Toledo told me that "I won't accept being blackmailed by anybody," indicating that Venezuela -- with Bolivia's support -- has quit the CAN to create a crisis aimed at getting his country and Colombia to withdraw from their respective free-trade deals with Washington. In an apparent slap at Bolivia's Morales, Toledo said that "I am not a subordinate to anybody, other than to my people."

"If there are some countries that are blessed with having oil or other products and don't need to open markets for their goods, good for them. But they can't kidnap oil-importing countries that need markets to feed their workers," Toledo added.

A POLITICAL DECISION

My conclusion: Chávez's megalomania is directly proportional to the price of oil, and oil prices have soared from \$8 a barrel when he took office in 1999 to a record \$75 a barrel last week. His decision to leave CAN is purely political, since Venezuela exports few nonoil products that could be affected by its neighbors' free-trade deals with the United States.

In addition to pressing Colombia and Peru to walk out from their trade deals with Washington, Chávez may want to sabotage a planned CAN free-trade deal with the European Union, scheduled to be nearly completed at a Latin American-European Summit in Vienna, Austria, on May 11, which 59 heads of state are planning to attend.

Peru's Toledo is to become the new president of the European-Latin American summit, and Chávez may want to prevent him from stealing the show by weakening the CAN with Venezuela's withdrawal, and by staging a "counter-summit" in the Austrian capital. The big irony is that Venezuela, the self-proclaimed champion of South American integration, is causing the region's biggest political divisions in recent history.