

# NOREF Report

## Political and economic realities clash in Latin America

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### Summary

Latin American efforts to achieve regional integration are foundering on national economic and political realities. Recent presidential elections have been heavily influenced by economic performance, and growth will be decisive in upcoming elections. Governments and the private sector have had varying levels of success in creating an environment conducive to business: regional integration processes show little progress whereas business integration is moving forward at a fast pace as evidenced by the Pacific Accord. This free trade agreement signed by Mexico, Chile, Colombia and Peru represents a new integration model and aims to compete with the Asian economies. Stock market integration among some of these countries is another example of this new trend.

Politics in the region will also be affected by the expansion of foreign trade, particularly the export of commodities which is facing increasing turbulence.

This report examines trends in Bolivia, Colombia and Brazil and contrasts them with US concerns in the region. Evo Morales, the Bolivian president, has lost electoral support over protests against food and petrol shortages and price rises. The government of José Manuel Santos in Colombia is distancing itself radically from the authoritarian approach to the drug war espoused by Alvaro Uribe, focussing instead on human rights and economic relations in the region. The Brazilian president, Dilma Rousseff, is taking measures to tackle an overheating economy while continuing Brazil's active diplomacy. In this context, Obama's visit to Brazil, Chile, and El Salvador and his address to the region were seen as disappointing, and frustrated expectations for a new US approach to Latin America.

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## Politics and economics go hand-in-hand

Political and economic concerns at national level have dominated Latin American politics in the past year. Recent presidential elections have been heavily influenced by economic performance, and growth will be decisive in upcoming elections. Voters have demonstrated that national economic conditions are a primary concern because, although Latin American economies are expanding, the future is uncertain. The high level of economic inequality in the region increases pressure on national governments to redistribute the income from exports, particularly in the context of a booming commodities market which still dominates Latin America's exports (with 40% price increases in the period 2004-2006).

At the same time, global economic uncertainties are making voters nervous about their future and they are demanding more political control over the private sector and a freer hand to intervene. In this context, foreign policy and regional relations have been affected, and governments and the private sector have had varying levels of success in creating an environment conducive to business: regional integration processes show little progress whereas business integration is moving forward at a fast pace. Considering that national decision-making processes have to respect local democratic rules, tensions between political and economic realities need to be handled shrewdly, which is not a given in the region.

Latin American voters demand more control over the private sector.

In fact the Latin American situation is not much different to that in the United States, where President Obama's political future

– in spite of the May 2011 operation against Osama bin Laden – remains dependent on the future of the American economy. This intertwining of political and economic dynamics in national settings and its consequences for foreign relations can be clearly seen in three cases: Bolivia, Brazil, and Colombia.

## Bolivia

In Bolivia, the first judicial election for the Supreme Court of Justice, the Plurinational Constitutional Court, the Agro-Environmental Court, and the Council of the Judiciary will take place in September

2011. Another controversial election will be held this year in the conflictive department of Sucre to replace the current mayor, pitting government forces against the opposition. Both these elections are significant institutionally for the Bolivian government, but they occur at a time when President Morales is facing his lowest rate of support which risks transforming these processes into a national plebiscite on his mandate. His current term expires in 2014 when Morales will face a new election campaign.

With electoral support at a low ebb (only 22% of voting intention in April 2011 – one third of his election voters in 2009), Evo Morales has faced protests over food and petrol shortages and price rises, and accused the Bolivian workers confederation (Central Obrera Boliviana, COB) of a plot to overthrow him.

## Frustration at Chilean delays over sea access

In a polemical move, Morales broke negotiations with Chile over sovereign access to the Pacific Ocean which landlocked Bolivia lost in the late 19<sup>th</sup> century. Frustrated by Chilean delays, and in an attempt to regain domestic support, he announced his government's decision to take the case to the Hague Tribunal and the creation of a Strategic Maritime Directorate, calling on former presidents to develop a new strategy. With these measures Morales is in effect disregarding the 1904 bilateral Treaty between the two countries and freezing the negotiation process with Chile.

At the same time, Bolivia's relations with the US and Chile have deteriorated in the wake of the joint US-Chilean operation that led to the detention of Rene Sanabria Oropeza, the Bolivian general who led Bolivia's counter narcotics special forces until 2009 and is currently the Director of CIGIEN, a Bolivian counter-narcotics intelligence unit within the Ministry of Government.<sup>1</sup> He is accused of organizing illegal shipments of cocaine from the Chilean port of Arica to Miami. He was arrested in Panama and extradited to the US to face trial at a Federal Court in Miami. The arrest is an embarrassment for the Bolivian government, which

<sup>1</sup> "Four Bolivian Nationals, Including Retired Police General, Charged With Drug Trafficking", US Drug Enforcement Administration, <http://www.justice.gov/dea/pubs/states/newsrel/2011/mia022811.html>, accessed 14 June 2011.

has been defending itself from US allegations that it is not doing enough to stop the production and export of cocaine.<sup>2</sup>

## Brazil

Dilma Rousseff, who was elected Brazil's president in October 2010 with a strong mandate to continue President Lula's policies, is facing an overheated economy and has decided to reduce the federal budget at the risk of losing her still strong popular support.<sup>3</sup> Seeking to attract greater foreign investment, she has been very active internationally, on the one hand continuing previous policies but, on the other, forging a new identity. Her trips to Argentina, Portugal and China signalled Brazil's important links with these countries but the trip to China was more complex than the South American contacts.

Brazil seeks foreign investment to counteract an overheating economy.

The Chinese visit coincided with the integration of South Africa into the BRIC grouping (Brazil, Russia, India, and China), thus strengthening the coalition while underscoring Brazil's role as a new global player. At the same time, Rousseff pursued more balanced trade relations with China, with a view to increasing Brazil's industrial exports.

### *Economic stability trumps human rights*

While seeking support for Brazil's campaign to secure a permanent seat at the UN Security Council, Rousseff introduced human rights in the Chinese-Brazilian agenda in a clear departure from Lula's stance. Yet, Chinese support for Brazil's role in the UN, together with the signing of multimillion contracts for industrial exports to China and huge investments in Brazil, trumped human rights concerns, thus proving that economic stabilization was her main priority.

<sup>2</sup> "Panama arrests Bolivia ex-drugs police chief Sanabria", BBC, <http://www.bbc.co.uk/news/world-latin-america-12588636>, accessed 14 June 2011.

<sup>3</sup> Ana Nicolaci da Costa, "Brazil data fuels fear of overheating economy", Reuters, <http://www.reuters.com/article/2010/06/08/us-brazil-economy-analysis-idUSTRE6572E020100608>, accessed 15 June 2011.

However, Brazil's abstention on the UN Security Council vote to impose a no-fly zone over Libya – joining Russia, China, India and Germany on humanitarian grounds – was very much in line with President's Lula critical approach toward US policies. Brazilian recognition of the Palestinian state and 1967 borders will also be a precedent for the new president in September 2011 when the United Nations votes to recognize the joint Hamas-Fatah unilateral declaration of Palestinian statehood.

## Colombia

### *Surprising turnaround on human rights*

In Colombia, the election of José Manuel Santos as president of the republic in June 2010 was not surprising, but his new approach to local and international politics represents a clear departure from the former president, Alvaro Uribe. A politician closely related to the Colombian industrial sector, Santos has distanced himself from Uribe's authoritarian landowner approach.

The new president's policy of restoring land to displaced people and his commitment to human rights reparation has marked a sea change in Colombian politics. The bill on Victims and Land Restitution, signed on 10 June 2011, will benefit 400,000 rural families who lost their homes and farms during the armed conflict. The bill advocates restoring the legal titles which were misappropriated by far-right paramilitaries in league with landowners, cattle ranchers, and local politicians.

Paving the way to a free trade agreement, the US-Colombian Action Plan presented to the US Congress in early April 2011 also echoes human rights concerns and includes several measures to protect rights activists: the enforcement of protection programmes for union leaders, a teacher relocation and protection programme, the criminalization and penalization of actions or threats that could adversely affect workers' rights, and the assignment of 95 full-time judicial police investigators to support prosecutors handling cases of crimes against union members.

### ***Restrained regional diplomacy***

In the political arena Santos has introduced important changes. His newly created political coalition, Social Party of National Unity (Partido Social de Unidad Nacional) – formed by Cambio Radical (Radical Change), which previously supported Uribe, and the traditional Liberal Party – has gained key cabinet posts. Santos has also introduced a more restrained approach towards the opposition and in Colombia's relations with Venezuela and Ecuador, highlighting diplomacy instead of the use of force. The nomination of the former Colombian minister of foreign affairs, María Emma Mejía, as secretary general of Unasur (replacing former Argentinian president Néstor Kirchner), was a clear South American reward for Santos's new policies and his support for the regional organisation.

Colombia's temporary seat at the UN Security Council as the Latin American representative is also contributing to reshaping the country's profile in the hemisphere. In this context of renewal, Santos moved forward his economic agenda during his last trip to Spain and Germany in April 2011, exploring avenues for increased trade and investment ties.

His fresh approach to the US and the region – emphasizing human rights and economic relations over narcotics and violence – has won Colombia a new improved standing in Latin America. From the US standpoint, the action plan to advance the US-Colombia FTA benefits not only Colombia but also the US in term of jobs and trade, which is particularly advantageous in the pre-election run-up to 2012.

### ***Private sector integration***

While national governments seek to enhance their political leverage through economic successes, the private sector is independently creating a new integration framework thanks to direct investments in the region, and commercial and financial joint ventures.

The efforts of national governments to integrate Latin American economies have been flagging, not to mention failing. Mercosur and its unrealised market integration is still receiving proposals for new members, as witnessed by Uruguay's president, José Mujica, who is trying to get approval for

Venezuela's membership. The Andean Community of Nations (CAN) is on the brink of disappearing owing to Venezuela's withdrawal, and the only tangible results of the Bolivarian Alliance for the Americas (Alba), to which Venezuela contributed some \$60 billion, are health workers and subsidized oil in participating countries.

In contrast with these failing integration efforts, other initiatives are bearing fruit. In May 2011, Mexico, Peru, Colombia, and Chile, all headed by presidents who support the private sector, signed the Pacific Accord<sup>4</sup> – a free trade

The Pacific Accord integrates the markets of Mexico, Peru, Colombia, and Chile and aims to compete with the Asian economies.

accord which is independent of broader regional initiatives. This process has created a 200 million people market with a GDP of \$1.68 trillion<sup>5</sup>, signalling a move towards closing the gap with the Brazilian economy. Prior to the trade accord, the Bogotá, Lima, and Santiago stock exchanges merged into the Latin America Integrated Market (Mila) creating a market bigger than Brazil's Bovespa and Mexico's BMV.

Private direct investments in the region by Latin American countries are actually strengthening economic ties. By way of example, Chilean investments more than doubled, rising from \$24.6 billion in 2008 to \$51.1 in 2010, the main recipients being Peru, Brazil, Colombia and Argentina. Nevertheless, these dynamics are deepening existing regional fractures, creating unstable and ad hoc political-economic coalitions and alliances.

### **US domestic policy interlinked with Latin America**

Even though Latin America does not head the US foreign policy agenda, all important domestic issues in the US are related to Latin America, and

4 Alex Emery, "Pacific trade accord to spur growth, Peru's Garcia says", Bloomberg, 28 April 2011, <http://www.bloomberg.com/news/2011-04-27/pacific-trade-accord-to-spur-growth-peru-s-garcia-says-1-.html>, accessed 17 June 2011.  
5 Comunidad Andina, Secretaría General, "Estadísticas del Acuerdo del Pacifico 2006-2010", SG/de 419, 9 May 2011, [http://estadisticas.comunidadandina.org/eportal/contenidos/1611\\_8.pdf](http://estadisticas.comunidadandina.org/eportal/contenidos/1611_8.pdf), accessed 17 June 2011.

US policies dealing with these issues are intertwined with Latin American realities, such as organized crime, youth violence and gangs, and migration.

President Obama underscored trade relations, evading the realities that affect both North and South America, such as organised crime and immigration.

Organized crime covers drug trafficking, money laundering, human trafficking, kidnapping, counterfeit goods smuggling, and gunrunning.

Considering the flow of weapons over the Mexico-US border every day, US government inaction owing to National Rifle Association pressure is fuelling the illicit gun trade and aggravating the situation.

Violent youth gangs, such as the *maras*, which originated in the US, gained a strong presence in the region owing to stringent US deportation laws. Some 2,000 guns cross the US–Mexico border from north to south every day, helping to fuel violence among drug cartels and against the army and police. About 17,500 persons are smuggled into the United States annually as trafficking victims, and another 500,000 enter as illegal immigrants.

The United States remains both a leading consuming country across the full range of illicit narcotics and a country with major domestic production of methamphetamines, cannabis, and other synthetic narcotics. Whether US policy makers pay attention to or neglect

Latin America, hemispheric realities inevitably dictate common grounds for cooperative policies, and globalization is strengthening these ties.

### ***Obama pushing for increased trade***

Paradoxically, President Obama's March trip to Brazil, Chile and El Salvador did not address the issues at the core of hemispheric relations. Instead, Obama appeared in the role of a salesman under pressure because of disappointing economic results which are affecting his re-election chances. During his visit to Brazil, Obama underscored trade relations and pushed for the F-18 fighter jet, which is competing with the French Rafale by Dassault Aviation. He handed Rousseff a joint letter from the Republican and Democratic leaders of the Senate, committing to a deal on technology transfers. In Chile, on the 50<sup>th</sup> anniversary of President John F. Kennedy's Alliance for Progress, an unsubstantial

and disappointing address to Latin American countries frustrated regional expectations, during which Obama limited himself to stressing his hopes for an enabling environment for business and entrepreneurs.

The only significant event during Obama's trip was in El Salvador, where he announced the Central

American Citizen Security Partnership, a \$200 million initiative to support efforts to counter the economic forces that drive young people towards criminality by strengthening courts, civil society groups, and law enforcement institutions. This partnership will also include regional and international partners such as Mexico, Colombia, Chile, Canada, Spain, the European Union, and the Inter-American Development Bank, in a coordinated effort which will avail of the expertise in these countries.

### **Upcoming elections**

In June 2011, the closely fought presidential runoff in Peru between the nationalist army officer, Ollanta Humala, and Keiko Fujimori, daughter of the former dictator Alberto Fujimori, was won by Ollanta. Despite Ollanta's denial of his sympathies with Chavez and admiration for Lula's policies, his government could move toward the more left-wing presidents in the region. Elections in Guatemala next September will also reflect the same ideological confrontation in a more uncertain scenario. By contrast, conditions in Argentina and Nicaragua would seem to indicate re-election of the incumbents in both countries and continuity in domestic and foreign policies.

To sum up, Latin American politics and foreign relations continue to be fragmented, stubbornly resisting the unachievable 20<sup>th</sup> century dream of regional integration.