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*Origin and Evolution of the South American
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From Trade to Security Concern.*

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ORIGIN AND EVOLUTION OF THE SOUTH AMERICAN COMMUNITY OF NATIONS: FROM TRADE TO SECURITY CONCERNS.*

Marco Aurelio Guedes de Oliveira ♦

Introduction

There are three periods of initiatives for integrating the Americas since the end of the Cold War. The first period began with the US move that led to the US-Canada Free Trade Agreement and to NAFTA. In South America, Brazil and Argentina were dealing with their problems of security celebrating bi-national agreements of cooperation in sensitive areas such as nuclear technology. The Initiative for the Americas by former President George Bush was the most important action of this first moment and it represented a daring proposition from the US perspective to deal once and for all with the issue of hemispheric integration.

The second period started with South and Central American reaction to the US - a move which produced a revival of regional integration arrangements. The creation of Mercosur embodied this positive counter-action. At this point, if one takes a Hegelian perspective, he/she would conclude by saying that now it would become the synthesis of both action and reaction. With other words, the celebration of a hemispheric free trade agreement. Unfortunately what followed was a decline in US commitment to its initial proposal and disappointment in Latin America about US intentions. Mercosur and other regional integration processes were left to accomplish integration on their own.

The third period began with the absence of Latin American issues in US foreign policy and its domination by security concerns. This new US action or inaction, what Howard Wiarda¹ called “benign neglect”, let South America free enough to make a new and enlarged move in terms of foreign policy represented in the birth of the South American Community of Nations and in the introduction of a security perspective on the debate about South American integration.

This paper shows the decline of trade as a central issue for the integration of South America and discusses the new period of integration in the region marked by security issues. It shows how Brazil proposed the South American Community of Nations (SACN) known also as South American Union (SAU) and what are its main goals. It also shows its differences when compared to Mercosur. The basic argument is that SAU represents a new perspective on regional integration, a new view linked to security concerns, based on geopolitical integration and on a search for a more independent and active political role for the region in global politics.

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¹ “American Foreign Policy toward Latin America in the Post-Cold War Era: A case of Benign Neglect?” in Maske et alli (Eds) *US Foreign Policy Towards Third World*. M.E. Sharp, London 2006

The Decline of Hemispheric Integration through Trade

When President George Bush launched the Initiative for the Americas in 1990, many believed that after the end of the Cold War the Americas were about to go into a new era of prosperity led by the US, now as the only superpower. There was optimism about a possible upgrading of Latin America within US foreign policy. Some believed that trade and investment would drive US action in the region and this would promote a new wave of growth and development throughout the region.

The positive impact of the Initiative for the Americas in Latin America was immediate. Together with Argentina, Paraguay and Uruguay, Brazil started in 1991 an integration process named Mercosur. Three months later, the US and the countries of Mercosur signed in Washington an agreement for their integration. Continental integration was the goal. In 1993 Brazil launched the idea of a South American Free Trade Area (SAFTA) in order to try to unify South American countries and prepare to a larger integration process. One of the main explanations for Mercosur at the time was given by the “theory of the Swimming Pool”. According to it, Mercosur was a kind of preliminary exercise in opening their members’ economy. The learned experience would be important to keep economic stability when they had to integrate into North American economy.

Unfortunately the US proposal did not live to its expectations. Soon after President Clinton launched his FTAA in 1994, it became clear that social and political issues were not going to be addressed in the US initiative. Due to the gap between words and reality, the FTAA proposal began to be interpreted by many as an attempt by the US to dominate Central and South American economies and re-design its hegemony in Latin America. Supporters of FTAA pointed out the positive aspects of NAFTA on Mexican economy: growth of its northern region; growth of trade with the US and so on. Nevertheless, the Mexican case also showed that the key issue of regional asymmetries in Latin America was not dealt with. If Mexico wanted to be looked at as a model case in favor of FTAA, there should be a way to address regional asymmetries in Latin America, an issue that has provoked social and political unrest and instability all over the region.

Since the beginning of the FTAA initiative, Brazil has occupied a strategic position within its negotiations. It co-chaired the process with the US while continued to work for the development of Mercosur, a sub-regional integration initiative intended to go far beyond FTAA promises.

According to a former Brazilian Ambassador to the US, Rubens Barbosaⁱⁱ, a FTAA acceptable to Brazil and Mercosur should include: a) the elimination of tariff barriers and the transformation of all specific customs duties into *ad valorem* tariffs; b) effective access to markets by means of a gradual but continual reduction of all non-tariff barriers (i.e. quotas, phytosanitary measures, etc.); c) discipline in the application of defensive trade measures (e.g. safeguards, antidumping) that affect Brazilian agricultural exports to the United States as well as other sectors that have been traditionally subjected to selective protectionism (i.e. steel products, footwear, etc.); d) a precise understanding that mechanisms that provide for unilateral trade sanctions must not be used; e) the elimination of trade-distorting mechanisms (such as export subsidies) and the disciplined application of domestic subsidies that affect the setting of domestic and foreign prices; and f) harmonizing the FTAA negotiations with those of the WTO, in order to adjust the advances achieved within the scope of the Hemisphere to the efforts that will be undertaken in multilateral agreements.

As one can see the issues of discord between Brazil and the US concerning FTAA were above all internal to the idea of trade liberalization. There was a perception that the US proposal would trap important sectors of Brazilian economy within a set of agreements that would benefit

ⁱⁱ Barbosa, Rubens. *The FTAA that is in Brazil's Interest*.

only US business. This view enhanced the arguments against the FTAA proposed by the US and pushed into its opposition even those Latin American intellectuals who believed that international trade increases economic welfare and supported the opening of Latin American economies to the US.

In face of little progress towards a multi-lateral agreement, the US reoriented its policy in two directions. First, to search for the establishment of bi-national free trade agreement with Latin American countries at the expenses of an overall agreement. Apart from the agreement reached with Chile, the US has not been able to make progress in this direction. On the contrary, this option has undermined the importance given to free trade in the FTAA initial proposal. Secondly, incapable of conciliating its proposals with Mercosur views, the US stepped back and accommodated itself in a kind of deadlock.

The US took agricultural subsidies - a central issue for Latin America- off the negotiations and indicated the WTO as the adequate forum to deal with it. In response Brazil suggested that intellectual property – a central issue for the US- should also be removed from the FTAA agenda. The optimistic idea of a FTAA as a way forward for the Americas was abandoned. It was gradually replaced by a set of summits and meetings that did not led to solutions. Politics and geopolitics were dominating again the theory and practice of hemispheric integration. This time free trade was not the dominant factor. Regrettably, access to the US market had become a tool of foreign policy making.

After September 11, the FTAA debate became irrelevant to the George W. Bush administration. The “securitization” of US foreign policy replaced the idea of opening markets and fostering free trade for the idea of closing borders and subordinating trade and all other issues to security. Now, one must support US foreign policy in order to apply for access to the US market. During the first year of President Bush administration, US support for the legalization of illegal workers from Latin America was seen as a matter of justice. After September 11, Latin America became a problem due to large number of illegal and uncontrolled emigrants in and coming to the US.

This situation was interpreted in Latin America as a confirmation that the FTAA was not part of a solution to its problems. It also enhanced Latin America perception that it had to find a way by its own to foster economic growth as well as to reduce social asymmetries. Regional integration arrangements such as Mercosur and the Andean Community regained perspective.

It was Brazilian President Fernando Cardoso that invited South American Presidents to participate in September 2000 on what later became known as the First South American Presidential Summit. According to Cardoso’s assessment the meeting was historic and represented a step forward to the construction and exchange of common experiences on democracy, peace, justice and prosperity for all countries of South America. He pointed out five key decisions taken at the meeting.ⁱⁱⁱ

First, the countries of South America must strive together to keep and consolidate democracy, human rights and freedom in the region. And this must take into account the history of the great South American leaders that fought for independence and freedom. Second, Mercosur and the Andean Community must move into shaping an enlarged South American free trade area including also Guyana and Surinam. Third, each country is expected to draw a plan and projects for the development of South American energy and transport infrastructure. They would count with the support of the Inter-American Development Bank and other regional institutions to finance these projects. Fourth, a committee was created to combat money laundering as well as corruption and organized crime in the financial sector. Fifth, a regional fund was created to foster common development of sciences and technology. The seed of the South American Union was planted and the debate on regional integration began to introduce issues other than trade.

ⁱⁱⁱ Fernando Henrique Cardoso, “Cúpula Sul-Americana:Uma Avaliação” in *Correio Brasiliense* 7 March 2000

Firstly seen as an up-dated version of the South American free trade initiative taken by former Brazilian President Sarney, it represented a further attempt to keep the debate on the need for regional integration firmly on the agenda of South American nations. It also introduced a new treatment to the issue of integration at the levels of energy (building of dams, the use of natural gas and other common natural resources such as water) and communications (roads, railroads, waterways and ports).

The Second South American Presidential Summit held in Guayaquil, Ecuador in July 2002 advanced the decisions taken in Brasilia and represented an assurance that the Presidential summits were a new and very important multi-lateral mechanism for the region. The countries of the Great Caribbean and of South America had the opportunity to link their economies and search for solutions to common problems.

The Guayaquil Consensus issued by the Summit emphasized the development of physical infrastructure for continental integration. Transport, telecommunications and energy were designated as the key elements of an Initiative for the Integration of the Regional Infrastructure of South America (IIRSA), launched at the First Summit in Brasilia in 2000.

IIRSA's guiding vision is to facilitate integration within the three main coastal zones of South America-Caribbean, Atlantic and Pacific-and to link these with the continent's internal regions. IIRSA's Technical Coordinating Committee is composed of three key financial institutions: the Inter-American Development Bank (IDB), the Andean Development Corporation (CAF), and the Financial Fund for the Development of the River Plata Basin.

Following up the call for projects at the Brasilia Summit, 162 projects in the three priority sectors for financing and implementation were identified. These include a bold scheme for road transportation linkages among Brazil, Guyana, Suriname and Venezuela. In Guayaquil, the Foreign Ministers of Venezuela and Guyana agreed to establish a Technical Committee on the construction of a direct road link between the two countries.

Other agreements on the development of transport infrastructure have been signed between Bolivia and Chile, Chile and the Southern Common Market (MERCOSUR), Chile and Argentina, and Brazil and Paraguay. There is also a major project for the development of multi-modal transport to link the countries in the Amazon River Basin to the Atlantic and the Pacific.

Suriname, Guyana, Venezuela and Colombia are all Amazon countries and are participants in an ACS Program for Uniting the Caribbean by Air and Sea. In addition, the Plan Puebla Panama (PPP) envisages, a road, telecommunications and energy network linking Mexico and Central America as far south as Panama. The ACS, IIRSA and PPP initiatives should be seen as complementary to each other. Viewed as a whole, they could offer a strategic opportunity for South America and the Greater Caribbean to be opened up to one another, with the mainland Caribbean countries serving as a bridge by means of north-south and east-west transport linkages.

Trade concerns were overshadowed by the initiatives for fostering the infrastructure projects. Security was also at the Presidents agenda when they adopted a Declaration on keeping South America a Zone of Peace. The South American Peace Zone was a step to prepare the region to face the possible escalation of conflicts in Colombia and also aimed at gradually reducing military spending in the continent so as to release more resources for investments.

Having perceived the emerging importance of security in the post 9/11 world, Cardoso's diplomacy started to reshape Brazilian foreign policy within the new paradigm. By the time President Lula took office, many thought Mercosur was in decline. The new Brazilian Foreign Minister, Celso Amorim, declared the government's interest in revitalizing Mercosur creating a development fund and a Parliament. President Lula became more active in foreign policy in order to pursue the regional and global objectives of Brazil, thus creating new partnerships worldwide. In accordance to the growing concerns with security, Brazil took its candidature to become permanent member of the UN Security Council as a centerpiece of its foreign policy. This represented a shift in the core of Brazilian foreign policy from economic interests to security interests. In a context in which the US preferred the search for terrorists to the search for a

hemispheric free trade agreement, Brazilian diplomacy tried to follow the tide by projecting its interests into the center of global diplomatic concerns.

The experience from two Presidential summits has indicated new ways to collectively deal with challenges raised by regional development and diplomacy. It has also introduced other key issues to an agenda dominated by trade. It helped the region to find a way to adapt regional interests into dominant global security issues. The formation of SAU seemed the best tool to achieve that.

The South American Community of Nations was launched at the Third South American Presidential Summit in the Peruvian city of Cuzco in 2004. Peruvian president Alejandro Toledo, declared a new country out of the convergence between Mercosur, the Andean Community, Chile, Surinam and Guyana was being born and it would one day have a common currency, parliament and passport. He said the new community would also help member nations to confront the challenges of globalization and if in the past, geography divided South America, today it unites it. For him, SAU creates a market of 361 million people with a GDP of \$973bn, exporting \$181bn of goods and services. Contrary to this optimistic view, doubts were raised at the time on the progress of the SAU due to trade disputes between Brazil and Argentina and the lack of diplomatic relations between Chile and Bolivia. Nevertheless, SAU somehow helped these countries to move towards bi-lateral dialogue in order to find viable solutions to their disputes.

According to the Cuzco declaration the South American countries shall improve the coordination of regional diplomacy and politics towards the outside world. It also called the regional business to come forward and participate in the process of integration. The convergence between Mercosur and the Andean Community as well as the issue of energy and transport were present too. The locations for the summit were chosen for their historical significance and their association with events that reflect well on South America. Cusco was the ancient capital of the advanced civilization of the Incas. Ayachucho was the site of an 1824 decisive victory against Spanish troops by the South American independence movement headed by Bolivar.

The creation of SAU represented a radical shift to the region. Trade was no longer the main issue. South American countries were free to enhance their power and practice diplomacy among them and with the outside world as they never did. Despite strong differences in style among South American left wing leaders, they all seemed to agree on the need to construct a regional pole of political power in order to influence world politics. At this point all regional interest were being shaped within the idea of security.

The New Perspective of Security in South American Integration

Mercosur was also affected by the drive towards security. It continued to negotiate with the EU and with the United States and the search to establishing trade agreements worldwide gained a new impetus. It made important initiatives towards Africa, Asia and North America and there are ongoing negotiations with Australia, Canada, and Mexico. Recently, successful trade agreements have been signed between Mercosur and India, Southern African countries and Arab countries. These initiatives have been criticized as if Mercosur have opted to abandon the will to reach agreements with the US and the EU. But it can be understood as a way for the bloc to enhance its global relations if looked at from a security perspective.

Perhaps the most important initiative by Mercosur -and which is now within the framework of the South American Union- has been directed towards the region's infrastructure projects, some of which have for decades depended on outside funding. Being able to reduce its debt and enter into a period of sustainable development, Brazil directed the Brazilian development bank - Banco Nacional de Desenvolvimento Economico e Social (BNDES)- to finance projects involving the integration of communications and the production of energy.

In August 2003, 23 projects worth US\$ 5.5 billion for the integration of South American infrastructure were presented by 12 South American countries. Most of these projects are near the

frontier between Mercosur countries and they aim to transform what used to be areas beset by security concerns into ones of economic prosperity. Growing investment from large regional enterprises, as well as multinationals, is set to consolidate a new pole of economic growth at the heart of South America. In 2004 alone, foreign investment by Brazilian businesses stood at US\$ 9.5 billion and most of it went to the Mercosur area.^{iv} There has been continuous growth in small- and medium-sized regional enterprises as well as in investment from Europe, North America and Asia.

A proposal for the setting up of structural funds to combat asymmetries among Mercosur members was approved in 2004. According to the site ADNmundo, Paraguay has received in January 2007 its first share of these funds. US\$60 million dollars are in the account of the Ministry of Economy of Paraguay to be spent in social projects and in the construction of roads. Mercosur fell under the spell of the security era. It now has to accept that SAU is the main regional framework and thus it must adapt to security principles.

Europe came forward to play a role in this change. It held a summit in Caracas in March 2005 with Brazilian, Colombian, Spanish and Venezuelan leaders. They agreed to strengthen political alliances, pledged to combat terrorism, drug-trafficking and poverty. They also evaluated the situation of the region looking for ways to accelerate the geopolitical element of South American Integration. The Heads of State reiterated their support for the South American Union, evaluated progress with respect to the strengthening of ties between their countries and renewed their commitment to deepen the dialogue and the political coordination in shared areas of interest.^v

Security issues dominated their agenda in Caracas. The four countries pledged support for the creation of a multi-polar world, respect for sovereignty and for international human rights treaties. Although they recognized the fundamental role of the United Nations in preserving peace and international security, they affirmed that the international body, in particular, the UN Security Council, needed to be reformed, and decided to coordinate their views in several upcoming international forums. Another issue was the combat of drug trafficking and terrorism. Alvaro Uribe, the Colombian President received a positive response, as all four Heads of States affirmed that terrorism and drug trafficking are serious threats to democracy and security around the world, and pledged to coordinate joint efforts between national authorities within the bounds of international law. The International Agreement for the Repression of the Financing of Terrorism and Resolution 1373 of the Security Council were pointed to as valuable tools to efficiently combat and punish terrorism. At the summit Spanish Prime Minister Zapatero sold military equipment for both Venezuela and Colombia for patrolling their frontier and reducing the shipment of cocaine to Spain.

Next SAU Summit was in Cochabamba, Bolivia in December 2006 and took place after the reelection of Lula in Brazil and Chaves in Venezuela and the victory of Evo Morales in Bolivia and Rafael Correia in Ecuador. It was dominated by the enthusiasm brought about by these victories and an attempt by Chaves to give SAU a strong populist touch by declaring that it needed urgently to put its decisions into practice. Declarations given by Chaves and Morales indicated that the trade liberalization agenda, particularly the FTAA idea, was out of question. Integrating South America was the main issue of this summit while a proposal for the creation of a South American Parliament was raised for the first time.

This Summit was followed by a Mercosur meeting on January 2007 in Rio de Janeiro, Brazil. Although Mercosur represents only a part of the South American Union, the meeting was marked by political issues such as the move of Venezuela to consolidate its membership and of Ecuador and Bolivia to become full members of the bloc. Since Venezuela joined it, traditional

^{iv} Reynaldo Passenezi Filho, "Internacionalização, um desafio para os brasileiros", *Valor Econômico*, 28th March, 2005.

^v Sarah Wagner "Summit in Venezuela accelerate South American Union" in Venezuelanalysis.com.

economic issues had to concede to political ones. How to combine Mercosur search for trade liberalization with the new populist and nationalist views is a challenge that the region must face in the near future. Otherwise it might put in danger all the gains provided by the window of opportunity opened to the region in the post-Cold War era.

SAU, MERCOSUL and the EU

Although Mercosur and the South American Union have their own forms and objectives, they are both spaces for regional dialogue and their summits are the most telling barometer of progress and discord within South American countries. In spite of this common ground, the Mercosur meetings, as well as its initiatives, are devoted to the advancement of the process of regional economic integration. For instance, negotiations to accommodate the interests of different entrepreneurial sectors of Brazil and Argentina are done at this intergovernmental body. Mercosur still pursues its aims of achieving the stage of a free trade area and a customers union among the four founders, Brazil, Argentina, Uruguay and Paraguay. Lately, a new challenge has been added: the incorporation of Venezuelan economy into the incomplete regime that rules in Mercosur.

Differently, the South American Union has become a forum for collective discussion of regional social and security issues. It has also identified itself with the fostering of infrastructure project for the physical integration of all South America. Perhaps its main challenge is to take out from bureaucratic desks long waited projects of roads, dams, bridges, and formulate new ones for the formation of an energy and communications network to be financed by the Brazilian BNDES, the Inter-American Development Bank and by Venezuelan petrodollars.

Mercosur gave the region an international status it never had. It resisted FTAA and offered another view of regional integration to the US. It led the US to abandon its one-sided project of free trade for the hemisphere and recognize that in order to advance the process it should look at Mercosur and other regional blocs as players to negotiate with. Unfortunately very little has changed when we compare the 1994 Miami declaration to the 2005 Mar del Plata one. Initial hopes of progress were substituted by feelings of doubts and by a perception of stagnation. The growing of China in the world economy dramatically reduced both the hemispheric and the international impact of a successful free trade agreement in the Americas. In the North, the US is unable to deal with issues of migration from the South. Mexico's economy is stalled and the country is looking for other trade opportunities outside the region. In the South, the absence of new US initiatives has eliminated prospects for hemispheric free trade agreements.

Without a US response to South America, the European Union appeared not only as a reference for South American integration but as a model with a social framework that would be essential for it to deal with its problems of social exclusion and development. EU and Mercosur officials have met and declared their wish to reach a free trade agreement many times. But attempts towards it were always blocked by conflicts over agriculture. For many in Latin America, both the EU and the US have been trying to have complete access to the sectors of South American economy in which they have competitive advantages without offering a similar compensation particularly in the US and EU heavily subsidized agriculture sector.

In face of these deadlocks there appears to be two alternatives left to Mercosur, the US and the EU. The first one would be to leave their differences aside and try to reach an overall agreement within the World Trade Organization. The EU, the US and Mercosur are trying to do that but so far without any breakthrough. The other alternative is inaction. And inaction means stagnation and growing conflicts. Regrettably this seems to be the ways things are now in the hemisphere. The region needs new tool to expand its interests. If the trade door is closed, maybe security would offer alternatives to stagnation.

The role of a multi-lateral SAU to boost regional integration and power has been effective. It has even been presented by some as similar to the EU. Some academics agree that SAU might

lead to an EU-like system in two decades. Others are skeptical about its potential to solve key regional disputes over territory and leadership.^{vi} Old issues of building up roads, producing energy, making it accessible to the backward areas, developing the economy and enhancing the governmental presence at the frontiers are back within a security view. Traditional security issues, such as combating organized crime, have gained new and higher status while new issues, such as searching for common regional security policy, are emerging.

The recent agreement between Brazil, and the USA on ethanol, once considered a trade issue and now upgraded to a security one, indicates that security might help the region to achieve what trade alone cannot.

But can a security agenda unlock hemispheric integration? Will SAU move closer to the EU model? Will South America deepen its links and forge at last a new active identity in World politics or will it succumb to its ghosts from a past of caudillos, radical nationalism and undemocratic practices? Developments throughout the next few years will possibly indicate answers.

^{vi} “Tem futuro a Comunidade Sul-Americana?” in [www-dw-world.de](http://www.dw-world.de).