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THEDIALOGUE

FEATURED Q&A

Will Political Fractures Spell the End of Mercosur?

"There's no way Venezuela will be holding the Mercosur presidency," Brazilian Foreign Minister José Serra said last month, calling the Maduro government undemocratic. // File Photo: Brazilian Government

Q The Mercosur trade bloc has turned into "a ghost-entity" and is in "the most serious crisis in the group's 25-year history," said an Aug. 25 editorial in Brazil's Folha de S. Paulo. Brazil, Paraguay and Argentina, each currently led by right-of-center governments, have steadfastly refused to agree to Venezuela's scheduled rotation to the group's presidency, boycotting a meeting convened Aug. 24 by Venezuela's foreign minister at Mercosur's headquarters in Montevideo. Uruguay attended the session and has, for now, supported Venezuela's cause, along with observer Bolivia. What is behind the rift in Mercosur, and what does the future hold for the trade group? Why are political fractures, not a new element in the mix for these countries, having such a strong impact on the group now? Will the member countries of Mercosur soon overcome political differences and advance their common economic agenda?

A Peter Hakim, member of the Advisor board and president emeritus of the Inter-American Dialogue: "If Brazil and Argentina were committed, as they claim, to pursuing more productive trade policies, they should either overhaul Mercosur or shut it down. Mercosur's dysfunction can be traced to its conception in 1991. It started out as an integration scheme that was far too ambitious for a group of economically insular countries. Rather than a free trade agreement, the four founding countries imitated the European Union and sought to create a common market with a single external tariff and a unified trade policy. Although elegant and far-reaching in its aspirations,

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TODAY'S NEWS

IN FOCUS

Venezuela Should Allow Recall Vote This Year: Biden

Venezuelan President Nicolás Maduro should allow a recall referendum this year, said U.S. Vice President Joe Biden. Such a vote could lead to Maduro's ouster and a new presidential election.

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BUSINESS

Mercedes-Benz Cuts 370 Jobs in Brazil

The German automaker slashed the positions at its unit in São Bernardo do Campo in São Paulo state, which employs 9,000 people. The company announced the cuts after a voluntary layoff program did not meet its target.

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POLITICAL

Mexican Finance Minister Quits After Trump Visit

Mexican Finance Minister Luis Videgaray, who reportedly championed the idea of inviting U.S. presidential candidate Donald Trump to Mexico, stepped down amid a public backlash over the visit.

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Videgaray // File Photo: Mexican Government.

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POLITICAL NEWS

Mexican Finance Minister Quits After Trump Visit

Mexican Finance Minister Luis Videgaray, a close advisor to President Enrique Peña Nieto, resigned Wednesday amid the uproar about U.S. presidential nominee Donald Trump's visit last week with Peña Nieto. Videgaray had reportedly championed the idea of inviting Trump to meet with the Mexican president, a decision that divided his cabinet and led to a backlash of anger from the public toward Peña Nieto, The New York Times reported. Trump is widely disliked in Mexico over his comments about Mexicans and his insistence that as president he would force Mexico to pay for a multibillion-dollar wall along the countries' border. "People are so fed up and bloodthirsty that a big head had to roll, so Luis fell on his sword," a person close to Videgaray told The Wall Street Journal. "He is not only paying for his mistakes but for the mistakes of the government in its totality." Peña Nieto announced Videgaray's departure at a news conference, but did not give the reason. He said José Antonio Meade, the country's social development minister, would succeed Videgaray as finance minister. In a forum televised Wednesday night on NBC, Trump pointed to Videgaray's resignation as proof of his trip's success. "If you look at what happened, look at the aftermath today, the people who arranged the trip in Mexico have been forced out of government," Trump said. "That's how well we did." The Republican candidate did not explain why he considered Videgaray's resignation to be a success for his campaign.

ECONOMIC NEWS

Chile's Central Bank Cuts 2017 Growth Forecast

Chile's central bank on Wednesday revised its growth forecast for next year to an expected 1.27 percent to 2.75 percent, down from than the previous 2 percent to 3 percent forecast, Reuters reported Wednesday. The central bank added that, if recent economic trends are any indication, "There seems to be no need for

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Mercosur ended up as a clumsy, unwieldy arrangement. Sure, it had some important early accomplishments: it helped moderate the contentious rivalry between Argentina and Brazil, and allow for greater cooperation on many fronts. Initially, commerce among the Mercosur partners rose sharply. But by the late 1990s, Mercosur was more a burden than an asset. Trade among members today is a smaller share of overall trade than it was two decades ago. Instead of bolstering the negotiating leverage of its members, the common tariff has kept the countries from reaching any serious trade deals. In contrast, non-members Chile and Mexico have each signed free trade pacts with 40 or more countries. By 2006, when Venezuela, with its bizarre economic policies and autocratic rule, was invited to join, the group was already more a political forum than an economic bloc. Whether Venezuela should lead Mercosur for six months is a minor question, in fact. The group's resistance to reform is the central problem. As a start, Mercosur should be revamped from a customs union into a free trade agreement, so members can make their own international commercial arrangements, unbound from the group's least open economies. The member states could also adopt clear rules to govern Mercosur, and establish a robust institutional infrastructure and dispute resolution mechanism, with real authority and needed technical capacity. Without change, Mercosur will remain more a barrier than a gateway to international trade and investment."

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NEWS BRIEFS

Paralympic Games Open in Rio, Temer Booed

The 2016 Paralympic Games opened Wednesday in Rio de Janeiro with an elaborate ceremony including thousands of performers at Maracanã Stadium. The opening ceremony began when American Aaron Fotheringham, in a wheelchair, jumped from a ramp in the stands and performed a back flip through a huge ring. Brazilian President Michel Temer, who was sworn in last week following Dilma Rousseff's removal from the presidency by the country's Senate, was on hand for the ceremony, but was booed by the crowd. The Paralympic Games in Rio will be held through Sept. 18.

Ecuador Begins Drilling for Oil in Yasuní Reserve

Ecuador on Wednesday began drilling for oil near the Yasuní National Park nature reserve in the Amazon, which President Rafael Correa had previously said he would protect from development and pollution, Reuters reported. In 2007, Correa had asked wealthy countries to donate $3.6 billion to offset potential revenue lost by not drilling for oil in the national park. The initiative ended in 2013, however, after only bringing in less than 4 percent of the target amount.

Glencore, Origin Energy Put Chile Joint Venture Up for Sale

Anglo-Swiss multinational mining company Glencore and Australia's Origin Energy have put joint venture Energía Austral, which operates in Chile, up for sale, according to two people familiar with the matter, Reuters reported today. The joint venture includes three hydro-power projects with a combined capacity of 1,000 megawatts. The sources said there has been no established deadline yet for bids on Energía Austral.

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new hikes to the monetary policy rate over the [two-year] policy horizon." Growth at the new projected rate would be up from this year's expected 1.5 percent to 2 percent growth, the central bank said in its quarterly Monetary Policy Report. Inflation is expected to be at 3.5 percent by the end of this year, and will lower to an expected 3.1 percent next year, within the central bank's target range of 2 percent to 4 percent. The central bank also said it expects the government will cap public spending in the coming year. "When our projections say that we expect the fiscal rule and fiscal commitments to be met by the government, that translates into an increase in public spending of around 3 percent," said the central bank's president, Rodrigo Vergara. The report also noted that the Chilean labor market has deteriorated gradually, and that business and consumer expectations remain at pessimistic levels.

BUSINESS NEWS

Mercedes-Benz Cuts 370 Jobs in Brazil

Mercedes-Benz has cut 370 jobs in Brazil, specifically in its unit in São Bernardo do Campo in São Paulo state, which employs approximately 9,000 people, MarketWatch reported today. Mercedes cut the jobs after its voluntary layoff program did not meet its original target. At the end of last month, the German automaker initiated a voluntary layoff program with the goal of cutting a total of 1,400 jobs. Only 1,047 employees registered for the program, however, obligating the company to terminate the additional contracts in order to reach its goal. Those who participated in the layoff program received a one-time payment of $31,000. For the first eight months of this year, Mercedes posted a 23.4 percent sales decline for trucks and a 24.7 percent sales decline for buses in Brazil. The São Bernardo do Campo unit only manufactures trucks and buses. Brazil's economy contracted by 3.8 percent this year and is expected to contract by another 3.2 percent this year.

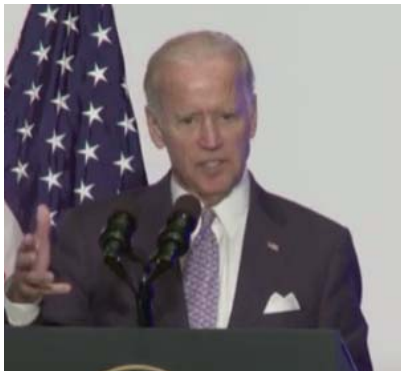
IN FOCUS

Venezuelan Government Should Allow Recall Referendum This Year: Biden

By Nicole Wasson

WASHINGTON—U.S. Vice President Joe Biden on Wednesday called for Venezuela's government to allow a presidential recall referendum before the end of the year, and for the country's government to free imprisoned opponents of President Nicolás Maduro's government.

"The recall referendum should take place by the end of the year, and the Venezuelan Constitution should be respected. Political prisoners should be released," Biden said at the annual CAF Conference, co-sponsored by the Inter-American Dialogue and the Organization of American States.



Biden // Photo: CAF Development Bank of Latin America.

If a referendum on Maduro's rule takes place before Jan. 10 of next year—the midway point in Maduro's term—and he is removed from office, a new presidential election would be triggered. If a vote to recall the president happens after that date, Vice President Aristóbulo Istúriz would take over and finish out the rest of Maduro's term. Biden added that the United States would be willing to help bring peace to the nation wracked by civil unrest and a crushing recession.

"The United States stands ready to work with all of our partners in the region facilitating dialogue between the government and the opposition that will help improve the lives of the Venezuelan people," he said.

Biden also praised efforts by Latin American governments that have been working toward peace under trying circumstances, praising in particular the peace negotiation process between the Colombian government and the Revolutionary Armed Forces of Colombia, or FARC, rebel group.

He warned, however, that the Andean nation—one of the United States' closest allies in the region—still had much to accomplish before it could establish lasting peace.

"The Colombian government and the FARC have agreed to an accord that offers hope for peace—emphasize hope for peace. We know that a signed agreement will not be the end, only the next phase in Colombia's difficult journey toward enduring peace," he said.

He also praised the process by which Brazil impeached President Dilma Rousseff, who was removed from office on Aug. 31. Biden said the South American country abided "by the established procedures to manage a transition of power." He added that the United States would continue to work closely with Brazil.

"The United States will continue to work closely with President Temer, as the Brazil government addresses these pressing challenges, because Brazil is and will remain one of the United States' closest partners in the region," Biden said.

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Thomas Andrew O'Keefe, president of Mercosur Consulting Group in San Francisco: "Mercosur has had serious credibility problems ever since Paraguay was suspended by the other three full members of the bloc in 2012 in violation of the very rules of the Protocol of Ushuaia, which governs what happens when there is a break in the democratic order in one of the member states. Once Paraguay was illegally suspended from participating in Mercosur's institutional bodies, the remaining three governments then voted to admit Venezuela as a full member state of Mercosur. The current crisis reflects recent changes of government in Argentina and Brazil, which now want Mercosur to return to its original focus on regional economic integration. Venezuela currently makes a mockery of that goal, as it has failed to eliminate tariffs on imports from other Mercosur countries (not to mention whether it is even in compliance with the requirement of the Protocol of Ushuaia that all Mercosur full and associate member states be representative democracies). Uruguay's support of Venezuela in its self-proclaimed role as now holding Mercosur's rotating presidency reflects the need of Uruguay's governing Frente Amplio party to satisfy extreme left-wing factions of the governing coalition. However, Uruguay is also supportive of the need for Mercosur to return to its original economic focus. The ideal resolution of the current crisis would be the suspension (if not outright expulsion) of Venezuela as a full member state of Mercosur. Despite the internal political shenanigans, it is important not to lose sight of the fact that Mercosur is a successful free-trade area. Intra-Mercosur trade exploded from just over $5 billion at its launch in 1991 to $43 billion by 2014."

> **"The ideal resolution of the current crisis would be the suspension (if not outright expulsion) of Venezuela as a full member state of Mercosur."**
>
> **— Thomas Andrew O'Keefe**

Gustavo Coronel, a founding board member of PDVSA: "The original sin of Mercosur was to admit Venezuela as a member in 2012, in violation of its own rules, without the express agreement of Paraguay. This move was widely criticized, but then-Uruguayan President José Mujica said, 'Politics are more important than legal considerations. We need Venezuelan oil.' This decision by Uruguay, Argentina and Brazil represented, for all practical purposes, the end of Mercosur as a tool for economic integration and its transformation into a politically driven organization. Today, member countries led by governments with different ideological orientations are having understandable second thoughts. The unruly reaction of the Venezuelan regime seems to have reinforced their determination. Venezuela announced to the world that it had assumed the presidency of the organization, convoked a meeting not attended by three of its five members, did not attend the meeting convoked by three of the members, and its foreign minister traveled to India, where she misrepresented the country as being in charge of the presidency of the organization. Of course, this has led to chaos. When then-Venezuelan President Hugo Chávez joined Mercosur with the grace of a pachyderm and through a back door lubricated with oil, many felt that this represented the kiss of death for the organization, given the Venezuelan regime's bellicose and destructive nature. Today, their concerns have become a reality. Chávez, Mujica, Lula and Kirchner are gone, but the messy Mercosur they left behind due to their greed and lack of ethics seems like a Latin version of Humpty Dumpty."

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