

Dow Jones International News
English
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13 January 2003
11:56

U.S.-Latin American Relations Hit Heavy Turbulence By Mike Esterl

NEW YORK -(Dow Jones)- When George W. Bush assumed the U.S. presidency in January 2001, he made Latin America a top priority.

Two years later, with the focus having shifted to Afghanistan and then to Iraq, much of the region is tilting to the left amid mounting frustration with failed free-market reforms, a hemispheric free trade drive is sputtering, oil supplies from Venezuela are shrinking and talk of growing "narco-terrorism" is starting to fill the air.

All of that - and more - is happening while the White House casts about for someone to replace Otto Reich, whose nomination to oversee Latin American policy at the State Department was knocked down by a groundswell of political opposition back in 2001.

"We are moving into an area of great unrest in U.S.-Latin American relations," said Larry Birns, director of the Council on Hemispheric Affairs, a regional policy think tank in Washington.

The unrest stretches from Argentina, where many locals blame a brutal four-year recession on Washington-directed economic policies, through Brazil, where a new president is promising a more combative stance in trade negotiations, all the way to Mexico, where the foreign minister resigned last week after failing to budge the U.S. in stalled migration talks.

The deterioration in the latter relationship is perhaps the most startling, given that Bush broke from recent protocol by making his first state visit to Mexico, not Canada. By last August, Mexican President Vicente Fox, protesting the execution of a Mexican citizen by U.S. authorities, declined an invitation to meet with Bush at his ranch in Crawford, Texas. Four months later, Mexican farmers angry about the axing of import tariffs under the nine-year-old North American Free Trade Agreement were threatening to block the U.S.-Mexican border.

Brazilians in late October meanwhile elected as president the flagbearer of the left-leaning Workers' Party, who suggested during the campaign that a U.S.-led hemispheric free trade initiative smacked of "annexation." Brasilia was later miffed when Trade Representative Robert Zoellick was the highest-ranking U.S. representative to attend Luiz Inacio Lula da Silva's Jan. 1 inauguration.

The next day Lula had breakfast with Venezuelan President Hugo Chavez and dinner with Cuban leader Fidel Castro, the region's two fiercest U.S. critics. Last week, Brazil's new science and technology minister caused a stir by appearing to suggest his country would consider developing nuclear weapons.

Brasilia quickly clarified it has no plans to build such weapons and Lula has been steering a centrist path since being elected, helping calm financial markets after the country's currency plunged 35% last year on pre-election jitters and solvency concerns.

Ricardo Guedes, a local pollster in Brazil, thinks Lula will balance "ideological rhetoric" with "pragmatic politics" as leader of Latin America's most populous nation - but acknowledges a departure from former President Fernando Henrique Cardoso, who spearheaded eight years of market-friendly rule with the help of an army of economists trained at elite U.S. universities.

"Coming from the left, Lula wants to have some more independence" from Washington influence, said Guedes, whose polling firm, Sensus, is based in the state of Minas Gerais.

A more radical transformation has already taken place in neighboring Argentina. When the U.S. and its allies first invaded Iraq a decade ago, South America's second-largest country sent two ships to support the effort and the foreign minister of the time, Guido di Tella, spoke tongue-in-cheek of entering "carnal relations" with the U.S.

But after pegging its currency to the dollar throughout the 1990s and winning accolades from Washington for its free-market reforms, Argentina defaulted on its foreign debt at the end of 2001, devalued its currency and plunged into its worst economic crisis since the 1930s.

The hardships have prompted a "sea change" in how many Argentines, more than half of whom are now below the poverty line, view the U.S. today, according to Sergio Bernsztein, a political scientist in Buenos Aires.

"This idea of joining the club of the rich and joining the U.S. in the Gulf (War) in the early 1990s didn't pay," said Bernsztein, who teaches at Universidad Torcuato di Tella.

A poll released by the Pew Research Center in Washington last month found that only 34% of Argentines view the U.S. favorably, down from 50% two years ago. Many locals blame the U.S., the main shareholder of the International Monetary Fund, for nixing another round of multilateral emergency aid last year.

Venezuela, the world's fifth-largest oil exporter, has meanwhile turned into a political minefield for the Bush administration after the White House quickly condoned the April ousting of Chavez following street protests - and then had to backpedal furiously when loyalists to Chavez reinstated the democratically elected leader 48 hours later.

That misstep threw into question the Bush administration's commitment to democracy in the region and hobbles its ability to act as an honest broker during the current strife rippling across Venezuela, where a six-week-old strike has sent the oil-rich economy into a dangerous tailspin.

Further hampering Bush's effectiveness has been his inability to find an assistant secretary of state for Western Hemisphere affairs, the official point person for Latin American policy, that is acceptable to Republicans and Democrats.

His first choice, Reich, has been shunted to the National Security Council

after senators balked at his hardline position on Cuba and links to covert operations in Central America in the 1980s during the so-called war on communism.

But some are already questioning whether Bush's new nominee, Roger Noriega, is the right person for the job. Noriega served as a top aide to former senator Jesse Helms, another cold-war warrior, and could face tough Senate scrutiny.

"I really think they need someone who is knowledgeable about Latin America, who really isn't tainted by this cold war animosity," said William Ratliff, a research fellow at the Hoover Institution at Stanford University.

Following the terrorist attacks of September 2001 on the U.S., though, war discourse is becoming commonplace in Washington. General James Hill, commander of the U.S. Southern Command, warned Thursday that Latin American "narco-terrorist" networks have forged alliances with radical Islamic groups, threatening regional stability.

That kind of talk is sure to catch the attention of the White House and potentially redirect resources south of the Rio Grande - but "obviously from a security perspective, not a development perspective," said Jorge Chabat, a political scientist at CIDE, an economic research institute in Mexico City. Chabat questions whether Bush's initial honeymoon with Mexico was ever anything more than a rhetorical flight. He points out that on the same day that Bush was lurching on enchiladas with Fox at the latter's ranch in Guanajuato in early 2001, the U.S. began bombing Iraq.

"Many people interpreted that as the real interest in the U.S. was in Iraq, not Mexico," he said.

The Hoover Institution's Ratliff thinks Bush has never entirely forgotten Latin America, adding that he deserves credit for continuing to push for a Free Trade Area of the Americas accord after the region-wide initiative stalled under the Clinton administration.

Washington launched formal free trade negotiations with five Central American countries last week and inked a deal with Chile in late December following more than a decade of talks.

Ratliff says the accord with Chile, South America's lone investment grade credit, could serve as a beacon for the entire region by demonstrating that U.S. economic engagement can usher in prosperity at a time when many countries are struggling to emerge from recession.

But he also sees plenty of obstacles, after Brazil rejected Bush's initial proposal to accelerate the timetable for an FTAA pact by two years.

Given the current pace of talks, "I'm skeptical" a 34-country FTAA will arrive by the 2005 deadline that was first agreed to back in 1994, he said.

-By Mike Esterl, Dow Jones Newswires; 201-938-4026; mike.esterl@dowjones.com

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