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UNASUR and the Eurozone Crisis

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PAUL KELLOGG, AUG 30 2012

Significant regional integration efforts, independent from the United States, have been among the most striking developments in Latin America and the Caribbean this century. The most ambitious of these projects is CELAC – the Community of Latin American and Caribbean States – founded at a summit in Caracas, Venezuela in December 2011.[i] In conjunction with the Bolivarian Alliance of the Peoples of our America (ALBA) and the Union of South American Nations (UNASUR), there now exist very serious, regionally distinct, alternatives to both the existing Organization of American States (OAS), for decades dominated by the United States, and the now moribund (and also U.S.-dominated) trade agreement, the Free Trade Area of the Americas (FTAA).

The European Union (EU) was for many years a key source of inspiration for regional integration in Latin America and the Caribbean.[ii] Understandably then, the current crisis in the EU, particularly in the Eurozone countries, might be expected to give pause to regionalist enthusiasm in Latin America and the Caribbean. However, the fundamental dynamics in the two regional projects are completely different. The EU is trying to build a regional bloc through neoliberal policies. By contrast, the new regionalism in Latin America and the Caribbean has emerged as a challenge to neoliberalism. We can anticipate a continuation of efforts to integrate the economies of Latin America and the Caribbean no matter how the Eurozone crisis plays out.

These regional differences are firmly rooted in the very different places in the world economy, occupied by the two regions in question. The biggest economy in Latin America is Brazil, whose 2011 GDP per capita (adjusted for purchasing power parities, expressed in 2005 international dollars) was $10,278. The 2011 figure for Germany, Europe's biggest economy, was $34,437, three and-a-half times more than in Brazil. Even Greece, the most crisis-ridden Eurozone country, had a GDP per capita of $22,558, more than twice as high as that of Brazil. If the comparison is drawn using one of the poor countries of Latin America, the contrast is even greater. GDP per capita in Bolivia, for instance, was just $4,499 – a mere 20% of GDP per capita in Greece, 13% of GDP per capita in Germany.[iii] This underlies the diametrically opposed orientation of the two regions towards neoliberalism. One region embraces Global North countries, which have been the architects of neoliberalism, while the other embraces Global South countries, which have been the victims of neoliberalism.

In Europe, we are seeing played out in real time an attempt to deal with economic difficulties through a harsh internal application of neoliberal doctrine, reminiscent of the "shock therapy" applied to Bolivia in the 1980s. Take, for instance, the "bailouts" being engineered for Greece by the troika – the European Central Bank (ECB), European Commission (EC) and International Monetary Fund. These do not amount to a new kind of state-interventionist "regional Keynesianism." The bailout money does not go into the pockets of Greek workers and the unemployed. The bailout money is being "recycled" from the European Central Bank and the IMF in particular, back onto the balance sheets of key European financial institutions, which stand to lose heavily should the Greek economy go under.[iv] A European Commission report outlining the nature of the conditions wrote: "the government has expressed the intention of adopting legislation giving priority to the debt service vis-à-vis other cash outflows".[v]

The neoliberal contours of the current moment in the Eurozone, are revealed even more clearly through a reading of the central policy prescriptions attached as conditions to the bailout. A February 2012 memorandum between the troika and the Greek government, rather than developing policies to increase demand, will have the effect of significantly constricting demand. These policy prescriptions include:

- a 22-percent cut on the standard minimum monthly wage;
  - for those under 25, a 32-percent reduction;
  - wage freezes on several categories of workers until the unemployment rate falls below 10 percent;

- €3.2 billion in spending and pension cuts resulting in:
  - monthly pension payments above €1300 will be reduced by 12 percent;
  - supplementary pensions, paid out of workers' own contributions, will be slashed by up to 30 percent;
  - reduction in pharmaceutical expenditure by at least €1,076 million;
  - reduction in overtime pay for doctors in hospitals by at least € 50 million;
  - an average reduction by 10 percent in the so-called 'special wages' of the public sector. [vi]

By contrast – UNASUR and the other recent regional integration efforts in Latin America and the Caribbean, have their roots in the social movements which emerged to combat the Washington Consensus and neoliberalism. This is of course true for ALBA, the smallest, and most radical of the integration projects. ALBA began in 2004 as an alliance of only two countries – the U.S. nemesis, Cuba, and Hugo Chávez' Bolivarian Republic of Venezuela. This occurred barely two years after the culmination of the waves of protest in Venezuela associated with the attempted coup against Chávez in April 2002, and the subsequent confrontation with the oil industry in the "strike" of 2002 and early 2003. Cuba, for many years the only state in the Americas openly challenging neoliberalism, was here joined by Venezuela, a state whose Chávista government was only in office because of mass social movements against neoliberalism. The December 2004 launch of the ALBA project was chosen precisely because the very neoliberal FTAA was due to come on stream the next year.

The anti-neoliberal character of ALBA was made even clearer through the adherence of its third member – the Evo Morales-led plurinational state of Bolivia. Like Chávez' government in Venezuela, Morales' Bolivian regime cannot be understood without appreciating the huge protests against neoliberalism in that country – from the Cochabamba struggles against water privatization in 2000, to the so-called "gas wars" of 2003.[vii] Ximena De La Barra and R.A. Dello Buono summarize the context to the new regionalism, extremely clearly. "The architects of the Washington Consensus clearly overestimated the staying power of neoliberal hegemony just as they undervalued the capacity of popular resistance across the Americas. A regionwide upsurge of social movement protests produced a new correlation of forces for social transformation riding atop a tumultuous set of regional sentiments such as Venezuelan revolutionary Bolivarianism and a resurgence of indigenous militancy that in the Andes culminated in the seismic political transition to a plurinational Bolivia."[viii]

But it was not just ALBA which was launched in 2004 as a counter to the FTAA, but the much bigger, much more institutionally powerful UNASUR. This project is often seen, not incorrectly, as a "Brazil-centered" initiative. But if Brazil's regional aspirations are a factor in the development of UNASUR, so too are the more radical projects of the Venezuelan-centered ALBA.[ix] According to Bolivia's UN ambassador Rafael Archondo, "ALBA has acted somewhat as a bloc within UNASUR and CELAC, and the resolutions and stands of all three organizations have hardened the positions of Latin American governments vis-à-vis the United States."[x]

One of the problems confronting the Eurozone has been a strong resistance to moves towards federalism on the part of the general populations, and the resulting partial nature of the integration effort to date. There is a regional currency, but a fragmented, nationally-divided structure for debt and taxation. Without debt-sharing, all countries need to independently finance government debts. We are now very familiar with the spikes in interest rates this has meant for the weaker, southern economies of the Eurozone. Further, without tax sharing, these spikes in interest rates, and the resulting pressure on government budgets, have to be financed from a national tax base already under strain. A resistance to federalism has also hindered regional integration efforts in Latin America and the Caribbean. Brazil has been central to an older sub-regional integration effort, MERCOSUR, and Brazil "does not support the smaller MERCOSUR members through payments into structural funds. Most parts of Brazilian society are skeptical of regional integration and not ready to pay the costs of regional leadership."[xi]

But contrast the way in which "federalists" in both regions envisage a solution. In Europe, the method is a negative one. Most moments of deeper integration have been precipitated by severe crisis. There are leading integrationists who, understanding this, positively embrace the kind of deep crisis being experienced by Greece. It is only through the example of crisis, these pragmatic federalists argue, that European countries can be persuaded to transfer sovereignty to a larger, federal Europe. “Voters will be scared into grudging acquiescence precisely because a euro collapse is so terrifying”.[xii]

In Latin America and the Caribbean, the most aggressive federalists are associated with ALBA. Their approach has been to promote federalism by way of positive, not negative, enforcement. This can be demonstrated through an outline of the history of the *Banco del Sur*. Founded on December 9, 2007 by the governments of Argentina, Bolivia, Brazil, Ecuador, Paraguay and Venezuela, the *Banco del Sur* has a more radical counterpart, the *Banco del Alba* founded January 26, 2008. Their relationship parallels the UNASUR-ALBA relationship outlined above. Both banks aim to “become an instrument of South-South solidarity and fair development”. Both were preceded by the Venezuelan based Bank for Economic and Social Development (BANDES) formed in 2001.[xiii] This represents a departure for Brazil from the resistance to burden-sharing exhibited in its history in MERCOSUR. “The transition from Brazil’s relatively passive role in MERCOSUR to a more active ‘pro-federalist’ role in the *Banco del Sur* is evidence of the influence of the activism of the Venezuelan state.”[xiv] It also stands in sharp contrast to the crisis-driven federalist politics playing out in Europe.

This is not to say that the crisis in the Eurozone will have no impact on UNASUR and the other integration projects in Latin America and the Caribbean. One aspect to the new regionalism has involved moves towards a common, regional currency – the Sucre. In 2011, those measures were put on hold. Argentinian Rafael Follonier, a leading figure associated with UNASUR, said that when UNASUR was formed, they were thinking of only a “Central bank and a common currency, but the European experience made us decide to shelve the proposal”. He argued that for the eurozone, “the Euro has become a corset so no member can abandon the union.” Unlike in Europe, for UNASUR: “A common currency is the last step. First we must integrate the economies, soften asymmetries. What we are involved in now, and we are working on it, is to have inter-regional trade compensated with local currencies” [xv].

Regionalism in Europe is driven primarily by the imperatives of economic efficiency and capital accumulation. While those factors exist in Latin America and the Caribbean, the over-riding issues in the Americas south of the Rio Grande, remain the old problems of breaking dependency, overcoming barriers to development, and the effective assertion of sovereignty. This, in the modern era, takes the form of developing political challenges to the Washington Consensus and the neoliberalism it represents. So while regionalism in Europe has become bogged down in the contradictions of neoliberalism, in Latin America and the Caribbean, the logic of the new regionalism is intimately connected to the political challenges to neoliberalism which have crystallized this century. Similar in form, the regionalization projects in the two continents are in fact qualitatively different.

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[iii]World Bank, ‘World Development Indicators (WDI) & Global Development Finance (GDF)’, *World Databank*, 2012 <http://databank.worldbank.org/ddp/home.do> [accessed 12 August 2012].

[iv]Agustino Fontevecchia, ‘Greek Bailout Deal A Farce To Benefit Banks At The Expense Of Greece’, *Forbes.com*, 2012, 19.

[v]European Commission, *The Second Economic Adjustment Programme for Greece*, Occasional Paper (Brussels: European Commission – Directorate General Economic and Financial Affairs, March 2012), 195 (45).

[vi]Reuters, 'Greece Cuts Minimum Wage, Austerity Begins – Greek Cabinet Agrees to 22 Per Cent Cut in Minimum Wage', *The Times – Transcript* (Moncton, N.B., 29 February 2012), section C, 5; European Commission and others, *Greece—Memorandum of Understanding on Specific Economic Policy Conditionality* (Brussels, Washington, Athens: European Commission, ECB, IMF, Hellenic Republic, 9 February 2012), 51.

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[viii]Ximena De La Barra and R.A. Dello Buono, 'From ALBA to CELAC: Toward "Another Integration"?', *NACLA Report on the Americas*, 45 (2012), 32–36 (33).

[ix]Paul Kellogg, 'Union of South American Nations', in *The Wiley-Blackwell Encyclopedia of Globalization*, ed. by George Ritzer (Oxford, UK: Blackwell Publishing Ltd, 2012) <http://0-onlinelibrary.wiley.com.aupac.lib.athabascau.ca/doi/10.1002/9780470670590.wbeog925/full> [accessed 12 August 2012].

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[xi]Daniel Flemes and Thorsten Wojczewski, *Contested Leadership in International Relations: Power Politics in South America, South Asia and Sub-Saharan Africa* (Hamburg, Germany: GIGA German Institute of Global and Area Studies, February 2010), 34 (13).

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[xiii]Isabel Ortiz, *New Developments in South-South Cooperation: China ODA, Alternative Regionalisms, Banco Del Sur*, SSRN eLibrary (New Delhi, India: International Development Economics Associates (IDEAS), 21 April 2008), 5 (3) <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1032182> [accessed 12 August 2012].

[xiv]Kellogg, 'Union of South American Nations'.

[xv]MercoPress, 'Unasur, Looking at the EU, Freezes Project for Common Currency and Central Bank', *MercoPress*, 13 June 2011 <http://en.mercopress.com/2011/06/13/unasur-looking-at-the-eu-freezes-project-for-common-currency-and-central-bank> [accessed 12 August 2012].

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