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# LATIN AMERICA: ALBA alliance faces doubtful future

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## Abstract

ALBA's dubious long-term prospects.

In December 2014 the Bolivarian Alliance for the Peoples of Our America (ALBA) will celebrate its tenth anniversary. Yet amid unrest and uncertainty in its lynchpin Venezuela, it has languished in recent years and risks drifting into irrelevance. Venezuelan President Nicolas Maduro continues to push for deeper economic integration not only amongst ALBA's existing members, but also with ALBA's sister institution Petrocaribe and the more distant Mercosur. However, ALBA's failings suggest that only its more coherent, better institutionalised economic initiatives, such as the Unified Regional Compensation System (SUCRE), will endure.

## Full Text

SUBJECT:ALBA's dubious long-term prospects.

SIGNIFICANCE: In December 2014 the Bolivarian Alliance for the Peoples of Our America (ALBA) will celebrate its tenth anniversary. Yet amid unrest and uncertainty in its lynchpin Venezuela, it has languished in recent years and risks drifting into irrelevance. Venezuelan President Nicolas Maduro continues to push for deeper economic integration not only amongst ALBA's existing members, but also with ALBA's sister institution Petrocaribe and the more distant Mercosur. However, ALBA's failings suggest that only its more coherent, better institutionalised economic initiatives, such as the Unified Regional Compensation System (SUCRE), will endure.

ANALYSIS: Impacts.

ALBA's aims may be narrowed towards the social policy successes for which it is best known.

Existing ALBA members Ecuador and Bolivia will seek deeper involvement with Mercosur.

Participation in SUCRE will spread, with SUCRE reintegrated into Ecuador's wider New Regional Financial Architecture proposal.

ALBA was launched by Venezuela and Cuba in December 2004 as a response to the US-backed Free Trade Area of the Americas, but also as a means of using regional welfare 'missions' -- most famously the 'doctors for oil' exchange -- to shore up late President Hugo Chavez's core support following a recall referendum ( see VENEZUELA/CUBA: Accord seeks regional integration - January 6, 2005). This initial social thrust has led to a misunderstanding of ALBA's central purpose, which has always been to promote cooperative, mutually beneficial development within the region.

Most of its ambitious economic initiatives have failed to achieve traction:

People's Trade Agreement (TCP; Tratado de Comercio de los Pueblos) .

Crucially, the central TCP framework for cooperative, state-guided trade deals, which aimed to supplant existing competition-based agreements, has not been implemented anywhere despite multilateral and bilateral negotiations. Occasional state-to-state transactions at fair-trade, solidarity prices are often claimed as evidence of the TCP's impact, but overall the nature of trade within ALBA is essentially unchanged.

"Grandnational" companies .

These state joint ventures in key industries were created with significant public investment in order to allow state-led supply and competition in strategic industries. Most have stagnated at the design stage, and those that do function have little effect on the markets in which they operate.

ALBA Bank .

This institution has yet to begin functioning as a development bank with its own capital and associated lending. Rather it is run by the little-known Bank of the Treasury (Venezuela) and only administers capital transferred from other Venezuelan development funds. It has notably failed to secure the participation of Ecuador, whose officials remain sceptical of its competence.

Qualified successes.

Others have enjoyed only qualified success:

SUCRE virtual currency.

The value of trade via this mechanism, which saves foreign exchange for states and significantly reduces transaction costs for firms, has grown rapidly to 1 billion dollars per year. Though significant, this trade is unbalanced and sometimes unsavoury, with Ecuadorian exports to Venezuela making up the vast majority and up to one-third involving fake transactions for currency arbitrage via Venezuela's black market.

Petrocaribe.

This soft-loan scheme has insulated virtually the entire Caribbean from otherwise devastating oil-price surges by effectively reducing the barrel price from an average of 81 dollars to just 42 dollars over its lifetime (see VENEZUELA: Oil output forces regional rethink - January 8, 2014). Yet its more radical barter-trade aspect,

whereby members repay loans in kind, has been implemented by just three of Petrocaribe's 17 debtor countries.

The risks of Venezuela-centrism.

Venezuela has been responsible for most of ALBA's failings. In ALBA, as in Venezuela itself, grand designs have often been hamstrung by issues of capacity, transparency, accountability and outright corruption (both state and private):

First, because ALBA emerged as a means of providing rapid results for Chavez's poorer core supporters, its governance and funding centres on the Venezuelan presidency and its discretionary control over revenues from state oil company PDVSA. Social 'missions', Grandnational companies, ALBA Bank and Petrocaribe are controlled and financed via these channels. Executive control initially allowed for agile mobilisation of massive resources, but this has also been improvised, reactive and short-termist. Over time this has meant poor planning, shallow monitoring and widespread inefficiency.

Second, the presidency's discretionary resources come from oil revenues, making them susceptible to price volatility and cash-flow problems when public finances are overstretched. Since ALBA plays a very tangible part in provision of vital public services via the 'missions', including in sourcing basic items for subsidised food stores, such disruptions to ALBA initiatives can easily fuel discontent with the incumbent government ( see VENEZUELA: Economic plans will not halt deterioration - April 25, 2014). This -- more than any ideological shift -- increases the probability of an opposition victory once a recall referendum becomes possible in 2016. Such a victory would hand direct control over much of ALBA to a coalition opposed to its aims, and the ad-hoc nature of most ALBA initiatives means that they could quickly be dismantled.

Third, the TCP and SUCRE have been hindered by the involvement of Venezuela's foreign-exchange commission, CADIVI. Bureaucracy and corruption within this organisation, which until recently controlled allocation of cheap foreign exchange, have caused such delays that other ALBA nations came to see it as a non-tariff barrier to their exports. In Venezuela's promising bilateral TCP negotiations with Ecuador, this ultimately led to a reversal in early tariff concessions and failure to achieve a new agreement.

These issues have not gone unnoticed in the wider region, which affects prospects for any grand convergence of integration schemes.

Regional reticence.

The instability suggested by ALBA's lack of a firm political or economic anchor reduces its attractiveness to potential new members, since the complications of involvement may not produce long-term gains. The rapid rise of the free-trade Pacific Alliance bloc, meanwhile, shows that integration continues to be seen primarily as a means of gaining market access based on competitive relations between states, and ALBA's performance to date has done little to change that.

The exception is SUCRE. Its implication in currency arbitrage relates specifically to Venezuelan problems, but otherwise it has demonstrated its ability to reduce costs for firms of all sizes. As a binding treaty agreement it also has to be passed into national law, giving it a stability and durability unique within ALBA. These advantages have led non-ALBA states Uruguay, Colombia, and Peru to express their desire to participate. Whilst Maduro's recent sanctioning of wider participation should reinforce SUCRE, it also removes one of the few exclusive benefits of ALBA membership.

Although Maduro has charged the same capable Ecuadorian officials responsible for SUCRE with analysing the possibility of convergence between ALBA, Petrocaribe and Mercosur, the problems of ALBA's first decade suggest that SUCRE is likely to constitute its only significant influence on wider integration processes in the future.

CONCLUSION: Venezuela will continue to push for convergence towards a broader regional market including ALBA, Mercosur and other regional groupings. However, ALBA's incoherence, ineffectiveness and unpopularity mean that its progressive character is likely to be diluted by Mercosur rather than vice versa. The very real possibility of opposition success in a 2016 recall referendum in Venezuela, which would be fatal to ALBA, will continue to dissuade neighbouring governments from deeper involvement.

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