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LATIN AMERICA: ALBA malaise may boost Mercosur

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Abstract

The future of the Venezuela-dependent ALBA.

Although Venezuela's discretionary involvement in the Bolivarian Alliance for the Peoples of Our America (ALBA) will be hit by its cash-flow problems, ALBA's better designed and more institutionalised initiatives (Petrocaribe, the SUCRE virtual currency) will continue to function. However, Venezuelan President Nicolas Maduro's efforts to make political capital out of conflict with Guyana has reinforced the historical division between Anglophone and Latin states that ALBA looked to bridge, whereas larger Andean ALBA members continue to shift their attention towards Mercosur.

Full Text

SUBJECT: The future of the Venezuela-dependent ALBA.

SIGNIFICANCE: Although Venezuela's discretionary involvement in the Bolivarian Alliance for the Peoples of Our America (ALBA) will be hit by its cash-flow problems, ALBA's better designed and more institutionalised initiatives (Petrocaribe, the SUCRE virtual currency) will continue to function. However, Venezuelan President Nicolas Maduro's efforts to make political capital out of conflict with Guyana has reinforced the historical division between Anglophone and Latin states that ALBA looked to bridge, whereas larger Andean ALBA members continue to shift their attention towards Mercosur.

ANALYSIS: Impacts.

ALBA will continue to stagnate unless oil prices rise significantly.

Schemes similar to SUCRE are likely to appear, incorporating non-ALBA members.

The Guyana conflict will entrench positions in the Anglophone Caribbean and Latin America; international arbitration is likely.

The clearest threat to ALBA's progress -- if not its very existence -- is the political situation in Venezuela (see LATIN AMERICA: ALBA alliance faces doubtful future - June 27, 2014). With neither government nor opposition able to bridge a violent societal split or resolve fundamental social and economic problems, there is a risk of serious social unrest unless a relatively low-profile political actor -- possibly opposition moderate and former Chavista Henri Falcon -- can convert growing anger into political support.

With the OPEC basket reaching 44 dollars/barrel, even the Venezuelan government's budgeted price of 60 dollars for 2015 has proved over-confident. Since boom-time spending has often exceeded even this level, cutbacks may generate discontent among beneficiaries of extensive social programmes and deteriorating public services. However, as corruption is more flexible than institutionalised public programmes, its significant value may be squeezed disproportionately, perversely providing a softer political landing than would otherwise be the case.

The government has also sought to bolster its popularity through new initiatives to combat rising crime. Despite its typically ad-hoc establishment and dubious efficacy, the recent deployment of large and heavily armed 'pacification' units into violent areas (Operation Liberation of the People) is supported by 87% of the electorate. Moreover, the recently reinvigorated conflict with Guyana over the disputed Essequibo region is also backed by a large majority (see VENEZUELA: Voters vacillate as conditions deteriorate - August 20, 2015).

Inchoate opposition.

The opposition Democratic Unity Movement (MUD) coalition could be expected to capitalise on public discontent over the Maduro government's many deficiencies, but its own persistent weaknesses makes this unlikely. The unsuccessful attempt to unseat Maduro through destabilisation -- as favoured by Maria Corina Machado and the imprisoned Leopoldo Lopez -- has only deepened existing divisions with the more moderate faction led by Henrique Capriles. The high-profile MUD defector Ricardo Sanchez recently described the organisation as a "sack of cats" incapable of understanding the electorate; from this perspective Capriles's waning influence represents a new step in the wrong direction.

While other major ALBA members such as Bolivia and especially Ecuador have experienced recent episodes of social and political unrest -- mainly relating to conflicts with particular indigenous groups -- these are not a serious threat to stability, and the importance of these states to ALBA's progress is in any case dwarfed by that of founder and funder Venezuela.

Institutional endurance versus regional reconfiguration.

Some of these issues play out differently at the international level, however, with varied effects on ALBA. First and foremost, Venezuelan oil revenues have underwritten ALBA since its inception in 2004, so a further drop in oil prices will only prolong the stagnation evident in recent years, but institutionalised initiatives will endure.

SUCRE.

Trade via the SUCRE virtual currency can be expected to fall due both to reduced buying power in Venezuela and the higher cost of Ecuadorian exports given the strength of the dollar (see LATIN AMERICA: SUCRE system may expand regionally - July 23, 2014). The mechanism itself, however, is still employed in over 90% of the

Ecuador-to-Venezuela flows which account for nearly all SUCRE trade. Though the mooted expansion of SUCRE to non-ALBA states has been stymied by the implied need for re-ratification in all participating states, its benefits are well understood by Latin American states and identical schemes involving non-ALBA members can be expected to appear.

Petrocaribe.

The soft-loan mechanism Petrocaribe, meanwhile, is designed such that oil price reductions also reduce the financial burden on Venezuela: at current prices Petrocaribe barely registers. This does also imply a loosening of beneficiaries' dependence on Venezuela to minimise energy costs, but significant long-term debts remain and could be called in at short notice. For many Caribbean governments the US-proposed Caribbean Energy Security Initiative would be politically preferable, but without a clear indication of its economic proposition, policymakers in the region continue to support Petrocaribe (see US/CARIBBEAN: Clean energy will see Venezuela pushback - May 11, 2015).

Essequibo.

More significant in the Caribbean is the reigniting of the Venezuela-Guyana Essequibo dispute (see GUYANA: Venezuela border dispute hits oil outlook - December 10, 2014). Guyana had been strengthening relations with Latin American neighbours, while Venezuela has done likewise in the Anglophone Caribbean via ALBA and Petrocaribe. However, this dispute has seen the Caribbean Community (CARICOM) backing Guyana's claim just as the South American Union (UNASUR) has backed the negotiated solution preferred by Venezuela. The portrayal of Venezuela as aggressive and expansionist can only harm ALBA's prospects for further growth in the Anglophone Caribbean.

ALBA constrained?.

This revived divide also represents one of many obstacles to ALBA's aim of achieving a grand economic-integration scheme subsuming CARICOM, Petrocaribe and Mercosur, already undermined by the ideological and economic diversity of the proposed area. The potential signing of extra-regional agreements involving the EU and United States could complicate matters further. Overall, ALBA's push for an alternative approach has all but evaporated, with key proponent Bolivia opting to join Mercosur while Ecuador ponders the same move.

US diplomacy shifts.

The only real uncertainty is the effect of sweeping changes in Washington's diplomatic stance towards Cuba -- and to a lesser extent Venezuela (see US/CUBA: New relations will boost ties in region - December 18, 2014).

The relaxation of certain restrictions, both in terms of foreign investment and tourism, will bring rapid economic benefits to Cuba. This process will be reinforced by signals from the Democratic frontrunner for the 2016 US presidential election, Hillary Clinton, that she would seek to end the wider embargo.

Predictions of major political change in Cuba have repeatedly proven premature and will do so again. However, in the medium-to-long term, Cuba could exploit its new resources and its relatively capable state bureaucracy to renew and reinvigorate ALBA.

A quiet but significant detente between Washington and Caracas is also underway. This undermines Maduro's frequent rhetorical recourse to the threat of US intervention, but it also discourages domestic opponents from espousing extreme, non-constitutional means of political change.

CONCLUSION: As long as Maduro, who faces a probable recall referendum in 2016, retains power, ALBA's inertia will persist. This will allow regional divisions over trade policy to harden around the poles of the Pacific Alliance and Mercosur, with ALBA's model of alternative integration dissipating into the pro-Mercosur group. The thaw in Cuba-US relations will not radically change Cuba's approach to ALBA, though increased

engagement could be facilitated by increased tourism and foreign investment.

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Details

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