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Paraguay’s Decision to Rejoin MERCOSUR Revitalizes Trade Bloc

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In just two hours, Paraguay’s Congress—South America’s most discredited legislative body, with a majority that acts as President Horacio Cartes’ rubber stamp, with little international relevance, and suspected of amassing great fortunes through illicit activities such as contraband and drug-money laundering—produced a bit of news that immediately made major changes to the region’s political map.

Following a Senate decision eight days earlier, Paraguayan deputies on a split vote Dec. 18 agreed to rejoin the Southern Cone Common Market (MERCOSUR), a trade association it helped create in 1991 along with Argentina, Brazil, and Uruguay (NotiSur, March 28, 1991). Venezuela joined in 2012 (NotiSur, Sept. 21, 2012).

Immediately after voting to rejoin MERCOSUR, Paraguay’s Congress also decided to recognize the democratic government in Caracas, re-establish diplomatic relations broken 18 months earlier, endorse Venezuela’s MERCOSUR membership, and lift a declaration declaring Venezuelan President Nicolás Maduro persona non grata (NotiSur, Sept. 18, 2009, Aug. 31, 2012, and Nov. 8, 2013).

Together these measures re-established the equilibrium broken on June 22, 2012, when the rightist Partido Liberal Radical Auténtico (PLRA) and Partido Colorado (PC) toppled the constitutional government of President Fernando Lugo in a parliamentary coup d’état (NotiSur, July 13, 2012).

A perhaps unanticipated result of the deputies’ decision is the revival of MERCOSUR at a time when the Alianza del Pacífico—Chile, Perú, Colombia, and México—appears to have moved to the forefront, outshining MERCOSUR, an organization that had previously represented continental integration. This turn of events also served to recognize Venezuela’s Revolución Bolivariana. For six years, Paraguay had shown its disapproval of Venezuelan politics by vetoing that country’s entry into MERCOSUR on the pretext that the movement created and led by the late Venezuelan President Hugo Chávez (1999-2013) did not fit within the provision of the organization’s Democratic Charter.

Finally, by recognizing the Revolución Bolivariana and the legitimacy of the current Caracas administration, Paraguay’s action ended up isolating Henrique Capriles, the former leader of the Venezuelan opposition group Mesa de Unidad Democrática (MUD). He was alone in his stubborn decision to not recognize the April election of President Maduro (NotiSur, Jan. 10, 2014). Shunned by his former MUD allies, Capriles ended up recognizing the legitimacy of Maduro’s government a few days later and joined the broad dialogue of the country’s mayors and governors convened by the president.

At the same time, when the 48 deputies loyal to Cartes voted to rejoin MERCOSUR—the 32 remaining legislators walked out en masse when the vote was called—public anger at scandalous
episodes of corruption erupted against the Paraguayan Congress. These protests led to the impeachment of some legislators who are now under criminal investigation (NotiSur, Jan. 17, 2014). Citizen and media reports about other politicians now cast a cloud of suspicion over each and every one of the 80 deputies and 45 senators.

From the beginning of the long dictatorship of Gen. Alfredo Stroessner (1954–1989), all sectors of government were riddled with corruption. When once again it was obvious that this scourge was inherent in the two main political parties, everyone began asking the same question. Legislators, citizens, and the media want to know what led to Cartes and his Partido Colorado—the same party that supported Stroessner for the 35 years of his bloody regime—to suddenly decide to set in motion a series of events that contradicts their recent history since the signing of the Asunción Protocol that created MERCOSUR on March 15, 1991.

Everyone imagined that there was some great act or corruption behind the decisions. One theory was that the Brazilian government had "bought" congressional votes in exchange for financing infrastructure construction (rail connections, a bridge, and the extension of the electrical grid to rural areas). Agreements for those projects, however, had been made many months earlier.

Another theory was that Uruguay, eager to buy votes in Asunción, had promised to provide Paraguay with port facilities and import electrical energy and that Argentina would favor the interconnection so that the electricity would reach Río de la Plata. Another false speculation: 1) Uruguayan ports had already been available to Paraguay for years; 2) an existing agreement among the three countries provides that, if necessary, Paraguay would provide energy to Uruguay via Argentina; and 3) Uruguay is self-sufficient in electrical energy, to the degree that, in this difficult Southern Cone summer, it sold large quantities to Argentina.

A third hypothesis is that, in reality, it was Venezuela that had "bought" Paraguay’s Congress. There is no evidence of any truth to this last hypothesis either, though it is true that Paraguay has long been indebted to Venezuela for petroleum supplies. In addition, Venezuela could help erase that debt via a mechanism that has worked well for other countries: an exchange of crude for food. Venezuela is deficient in food and requires huge sums of foreign exchange to pay for imports.

**Venezuela, Paraguay to focus on bilateral agenda**

When MERCOSUR members meet in Caracas, Venezuela, on Jan. 30-31, the organization's pro-tem presidency will be passed to Argentina, and, according to Venezuelan Foreign Minister Elias Jaua, Maduro will receive Cartes "without time limits and an unstructured plan, to work on long-overdue points of the bilateral agenda." Both countries had reopened their respective embassies on Jan. 14.

Speaking in Asunción, Venezuelan Ambassador Alfredo Murga said that one point of the upcoming bilateral meeting would be the debt Paraguay's state-owned Petropar owes Venezuelan state oil company Petróleos de Venezuela (PDVSA). That debt dates back to the administration of former President Nicanor Duarte Frutos (2003-2008). Venezuela stopped crude-oil shipments to Paraguay in June 2012, following the coup that overthrew Lugo. At that time the debt had reached US$300 million, a large amount for the fragile Paraguayan economy.

Murga said, "Compañero Maduro ordered appropriate studies, and when he meets with Cartes he most likely will have a proposal advantageous for both countries." Hinting at what the proposal might entail, the ambassador said, "Venezuela is a major food importer, notably of meat, and
Paraguayan meat enjoys a good reputation in our country. As for the rest, we are willing to support Paraguay’s energy needs with crude and technology."

The ambassador also said that Venezuela could offer Paraguay "special and exceptional" conditions within the framework of MERCOSUR to purchase crude. Without saying so directly, he indicated that, in the decision to relaunch the integration project, these conditions would include similar treatment to that which Uruguay and countries of the Alianza Protocribe receive: preferential crude prices, paid, in part, with products and services, and the rest with long-term, low-interest loans.

In August 2012, with Paraguay excluded from MERCOSUR and the other three members inviting Venezuela to join the trade bloc, the presidents of the group jubilantly announced the birth of the world’s fifth-largest economic force. MERCOSUR, they said, ranks behind the US, China, Germany, and Japan.

They overreached in their optimism. External conditions ceased being beneficial, and Chávez, the major force behind South American unity and integration, died, thus freezing the process of unity. Meanwhile, with its temptation to make its citizens major consumers, the Alianza del Pacífico moved forward, added new observing members and grabbing the interest of many countries of the region to join.

It now appears the disadvantageous situation has been reversed, and Venezuela’s Maduro is positioned to inject vitality into the bloc and extend the synergy achieved at the governmental level to other areas of vital importance for the development of the region, in particular in advancing industrialization in a way that would change the South American production model.

The MERCOSUR bloc has the potential to be the fifth world power. Together, the five countries represent a GDP of US$3.64 billion, or 83% of South American GDP. It represents a market of 276 million people, 70% of the region’s population. It has crude-oil reserves of 364 billion barrels, or 22% of the world’s reserves, of which Venezuela’s certified reserves alone are 297.57 billion. In addition, together the five countries are among the world’s largest food producers and have 28% of proven fresh-water reserves.

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