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ECONOMY

Uruguay moving to free-trade talks

As divisions deepen in Latin America, Uruguay's leftist president finds ground for agreement with President Bush.

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WASHINGTON - Uruguayan President Tabaré Vázquez, often cited as an example of Latin America's leftward shift, and President Bush agreed Thursday to deeper ties and talks that could lead to a free-trade pact with Washington.

With Bush at his side in the Oval Office, Vázquez said the two countries will set up a joint technical commission to discuss trade issues -- an arrangement that could lead to formal trade talks later on this year. The United States is the biggest trade partner of Uruguay, a small country of three million people but rich in agricultural products.

"We have now also agreed to work to expand, intensify, and strengthen our trade relations," said Vázquez, who was sworn in as president in March of 2005. At the time, he was seen as part of the leftward shift in places like Argentina, Chile, Bolivia and Venezuela, widely perceived as a backlash against the pro-business policies espoused by the Bush administration.

MONTHS AWAY

But Vázquez sounded all business after Thursday's meeting with Bush. He said the joint commission would start "in a few months in Montevideo."

Vázquez is embroiled in a bitter confrontation with neighboring Argentina over a paper mill investment and has threatened to abandon the Southern Cone's Mercosur trade pact, underscoring divisions within Latin America over free-trade pacts, the Bush administration and the challenge posed by populist movements.

Bush said the two talked about "extending our commercial relations" and about renewable energy, "a subject that is very dear to my heart and necessary for our country."

POLITICS ON TABLE

White House officials later said the two presidents also discussed political developments in Latin America, including Venezuelan President Hugo Chávez's increasingly aggressive and anti-American foreign policy in the hemisphere.

Earlier in his visit, Vázquez told the pro-free trade Council of the Americas in Washington that he welcomed foreign investment and noted that his country respected its contractual obligations.

That was an apparent reference to Bolivian President Evo Morales's announcement Monday that he was nationalizing the natural gas industry, a move that sent shock waves around Latin America. The leaders of Brazil, Argentina, Venezuela and Bolivia met Thursday to discuss the Morales move, which threatens to hurt Brazilian, Argentine, Spanish and French investments in Bolivia.

If Vázquez did sign a free-trade agreement with the United States, it could mean Uruguay's exit from Mercosur. The Uruguayan leader has repeatedly criticized that trading bloc as unhelpful to its smaller members. The group is made up of Argentina, Brazil, Paraguay and Uruguay.

During his campaign for election, Vázquez was critical of free trade and open-market policies espoused by his conservative predecessor, but he has shifted his position amid the conflict with Argentina over a \$1.8 billion paper mill investment, the largest ever in Uruguay. The mill is being built on the Uruguayan side of a river that forms the Argentine border.

Argentina says the mill will cause environmental damage, and on Thursday filed a complaint before the International Court of Justice.

Trade talks make "strategic sense" for both Washington and Montevideo, said Nelson Cunningham, a Latin American specialist with the Kissinger McLarty Associates, a firm that advises companies on political risks.

INDEPENDENCE

Cunningham said Vázquez needed to strengthen his negotiating position in the paper mill dispute by affirming his independence from his Mercosur neighbors.

"Coming to Washington where his message is going to be amplified . . . is a way to strengthen his hand in these negotiations," said Cunningham.

He added that the Bush administration also stands to gain from a trade agreement because it would show that the United States can reach out to left-leaning governments in the region.