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Left's win in Argentina strains ties with Brazil, deepens split in Latam

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BRASILIA (Reuters) - The election of leftist Alberto Fernandez in Argentina, who Brazil's right-wing President Jair Bolsonaro has called a "red bandit," sets the stage for a run-in between South America's two biggest economies that could derail their Mercosur trade bloc.

Bolsonaro, an outspoken former army captain who won power last year, told reporters during a visit to Abu Dhabi on Monday that Argentine voters had made a mistake and he had no intention of congratulating Fernandez for his win on Sunday.

Their hostility highlighted the ideological battlelines reappearing in Latin American diplomacy.

Fernandez's victory, along with last year's win by leftist Andres Manuel Lopez Obrador in Mexico, marked an end to market-friendly reforms in both countries, leaving conservatives in Chile, Colombia and Brazil more isolated.

Lopez Obrador said on Monday he would call to congratulate Fernandez and Bolivian President Evo Morales, the last survivor of the 'pink tide' of leftist leaders of the 2000s who won a controversial fourth term this month in elections denounced by the opposition, the United States, Brazil and Colombia.

Brazil-Argentina relations have been cordial and constructive since both shed military rule in the 1980s, despite traditional tensions in geopolitics and on the soccer field.

Although they compete in global grains and beef markets, Brazil remains the top trade partner

of Argentina thanks in part to the role of the Mercosur bloc - which includes Uruguay and Paraguay - in fostering an exchange of cars and other manufactured goods.

As both economies sputter, however, their presidents may find it tempting to play to their bases, antagonizing ideological foes and emphasizing their differences over red-button issues such as Cuba and Venezuela.

As he cruised to victory, Argentina's president-elect posted a Twitter message calling for the release of Brazil's former leftist president Luiz Inacio Lula da Silva, who was jailed last year for a bribery conviction.

The tweet riled Bolsonaro. "The first thing Fernandez did was to post 'Free Lula' saying he was unfairly jailed. So we can see where he is coming from," Bolsonaro said.

Fernandez, a trade protectionist, has vowed to reconsider Argentina's membership in Mercosur. Bolsonaro, in turn, has said Argentina should be left out of Mercosur if it blocks trade liberalization proposed by Brazil.

Bolsonaro said on Monday that his government would wait to see what position Fernandez takes once he assumes the presidency in December.

"Let's see how he behaves," Bolsonaro said, adding: "I hope Argentina does not change its course on trade."

Foreign policy and trade experts say the two economies are too interdependent to entirely break up Mercosur.

The greater threat may be to a trade deal between Mercosur and the European Union, which has taken two decades to negotiate and is facing resistance in European countries.

"The relationship between Argentina and Brazil will, at best, be cold for the next three years," said Welber Barral, a Brasilia-based consultant and former trade secretary.

He said, however, that industrial groups on both sides will try to "appease" the governments in an effort to insulate their exports and the EU-Mercosur agreement.

Fernandez has said he wants to renegotiate parts of the EU agreement that do not suit Argentina, which could delay its ratification with lengthy new rounds of talks.

Brazil is heading in the other direction and wants to reduce Mercosur's common external tariff and allow its members to negotiate new trade deals.

In the past, Brazil and Argentina's differences could be resolved because they saw eye-to-eye ideologically, but now Brasilia plans to negotiate more aggressively within Mercosur, government officials told Reuters, on condition of anonymity.

Brazil has no plan to abandon the trade bloc at present due to the Peronist return to power in Argentina, but that option has not been totally discarded, they said.

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