

# Executive Summary Backgrounder

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## U.S.–Latin America Ties Need Commitment and Strategy

*Stephen Johnson*

Occupied elsewhere, the United States has let its interest in Latin America slip. Partial political and economic reforms have failed to realize the expected progress toward prosperity. As a result, some countries in the region are turning back toward populism and forging links with undemocratic adversaries like Cuba, China, and Iran.

Although the Bush Administration has made impressive gains in concluding trade pacts and helping the Andean region combat drug smuggling and terrorism, its policies lack commitment and a guiding strategy. Growing instability and decaying quality of life could affect America through declining export markets, resource constraints, and increased migration to the north. To regain influence and foster a more prosperous, stable hemisphere, the United States should revive a strategy of promoting:

- Democratic reforms beyond elections,
- Open markets beyond free trade, and
- Day-to-day collaboration in fighting transnational crime and terrorism.

**Discontent.** All Latin American countries except Cuba celebrate competitive elections, and most have adopted some aspects of market economies. Yet citizens now tell pollsters that they are dissatisfied with democracy, although they still prefer it to dictatorship. Only 27 percent believe that markets actually work, although a solid majority prefer them to state-run economies.

Such responses suggest partial progress has not produced expected results. Powerful presidents still impose personal agendas on weak legislatures and judiciaries, and poorly performing education systems contribute to poverty and low social mobility. Increased trade helps established industries and contributes to growth but fails to create jobs where burdensome regulations and weak rule of law cripple small businesses.

**Looming Troubles.** Expanding populations pose problems for societies that lack competitive markets. The population of Latin America and the Caribbean is expected to grow by 140 million people in the next 20 years. Economies that rely on exports of raw materials and estate-based agriculture cannot provide enough new employment to satisfy demand.

Elections have produced a growing number of left-leaning governments. Brazil, Chile, and Uruguay are similar to Europe's social democracies. Other countries are inspired by Cuban dictator Fidel Castro. Venezuela now features authoritarian rule, restricts liberties, and is opposed to free trade

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and U.S. influence. Bolivia's new populist president might follow suit, and populist-leftist candidates are running for president in Peru and Nicaragua.

Boosting prospects for crisis, Venezuelan President Hugo Chávez is buying arms to scare democratic neighbors such as Colombia and has announced plans to acquire nuclear technology from Iran. He is also seeking to unite Latin America in a new energy alliance to manipulate hydrocarbon sales to the United States and other nations that he considers adversaries.

Colombia needs to expand its security forces to force illegal rural armies to demobilize. President Vicente Fox's attempts to liberalize Mexico's economy and reform its government have been thwarted by a divided congress. Mexico and the United States have since reached an impasse on migrant labor. Instability in Haiti continues despite peacekeeping forces, a transition government, and recent elections. Cuba's economy has been strengthened by subsidized oil from Venezuela, but Castro's death could lead to a breakdown of order or a massive release of asylum-seekers to the United States, posing hard decisions for U.S. officials.

**An Opportunity Agenda.** President George W. Bush won congressional approval for trade promotion authority, concluded a free trade agreement with Chile in 2003, and concluded a similar pact with the Dominican Republic and five Central American states (DR-CAFTA) in 2005. Yet U.S. programs to strengthen democracy have been intermittent, public diplomacy has been neglected, security assistance to help Colombia to combat narcoguerrillas lags, and the Administration has no clear energy policy.

To guard against greater troubles on America's southern flank, the Bush Administration needs commitment and a strategy to help neighbors develop societies in which investments will grow and people will want to live. Its policies therefore should:

- **Bolster** homegrown efforts to improve governance by strengthening citizen control of political parties now dominated by founders, establishing links between legislators and constituent districts, enhancing separation of powers, and promoting equal treatment of all citizens under the law.
- **Foster** free markets by pursuing pending bilateral free trade accords with Panama and the Andean countries of South America. Beyond trade, America should urge stronger property rights, simpler commercial codes, competitive banking, and models for privatization that create truly competitive industries.
- **Improve** security through regional cooperation. To counter today's transnational threats, the United States should encourage regional partnerships based on day-to-day military-to-military and law enforcement-to-law enforcement cooperation.

**Conclusion.** Washington needs to reengage Latin America to offset the influence of Hugo Chávez and Fidel Castro. Specifically, the United States should defend principles of free choice in Venezuela, sustain progress against narcoterrorism in Colombia, support institution-building in Haiti, develop a post-Castro engagement plan for Cuba, and promote reforms to move the region's energy sector away from state ownership and politicization. As Latin Americans try to sort out their politics, the United States must help to shape events there in a way that enables hemispheric neighbors to become more stable and prosperous.

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# Background

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*Stephen Johnson*

While the United States is preoccupied with the war on terrorism and promoting democracy in the Middle East, Latin America has drifted out of the U.S. sphere of influence, seeking an increasingly independent political course, electing leftist presidents, and forging links with undemocratic countries like Cuba, China, and Iran. Although elections decide leaders in every country except Cuba and market principles are gaining acceptance throughout the region, broad majorities seem disenchanted with those reforms, and some are opting to return to familiar traditions of populism and dictatorship.

America's long-standing principles of supporting democratic reform, helping to open economies, and maintaining security links are still valid. As the Bush Administration has improved trade relations in Latin America and sustained programs to combat drug smuggling and terrorism, however, U.S. engagement lacks commitment and a clear strategy. Instability and decaying quality of life in some countries could affect U.S. citizens through declining export markets, resource constraints, and increased migration to the north.

To regain influence and foster a more prosperous, stable hemisphere, the United States should recommit to a three-part strategy of:

- Broader democratic reforms,
- Economic restructuring to establish truly competitive markets, and
- Greater collaboration to fight transnational crime and terrorism.

### Talking Points

- The United States must not turn a blind eye to developments on its southern flank. Democratic reforms have unleashed powerful forces in the Caribbean and Latin America.
- Discontent with partial reforms has fueled a resurgence of populism and authoritarianism in Latin America and the Caribbean.
- Venezuelan President Chávez now seeks to turn the region against the United States, manipulating petroleum sales and starting a dangerous arms race.
- Washington needs to become more visibly engaged in the region by recommitting to core principles of democracy, economic reform, and security cooperation.
- Latin America needs to develop “opportunity” societies that foster competitive enterprise and social mobility for expanding populations.

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To facilitate the implementation of this strategy, the U.S. should:

- State clear objectives and ensure that actions match words,
- Target support for better governance and an open economy,
- Eliminate self-imposed roadblocks to better relations, and
- Revive lagging public diplomacy efforts.

### Inching Forward, Looking Back

Despite outward appearances of modernity, Latin America is in the midst of a relatively recent transition away from authoritarian rule and plantation economies. Most countries adopted republican constitutions after gaining their independence from Europe in the 1800s, but authority remained concentrated in powerful presidencies patterned after colonial viceroys. Only a few countries like Colombia, Costa Rica, and Uruguay developed durable democracies. Twenty years ago, when faltering economies and social upheaval triggered change, only six out of 23 Latin American countries could be classified as democratic. Now all except Cuba celebrate competitive elections, and most have adopted some aspects of market economies.

Yet according to a 2005 Latinobarómetro poll, only 31 percent of citizens in the 18 Latin American countries surveyed said that they are satisfied with democracy, although they still preferred it to authoritarianism by a margin of 53 percent to 15 percent. Beyond elections, they viewed democratic institutions as generally weak or non-functioning. Only 34 percent of respondents said that they were aware of their rights and obligations as citizens, and a similar percentage felt that their justice systems functioned effectively. As few as 27 percent thought that their markets worked, although 63 percent still preferred them to state-run economies. Meanwhile, unemployment, poverty, and high crime rates ranked as top concerns.<sup>1</sup>

**Behind the Numbers.** Poll responses show that partial reforms have not produced expected changes. Powerful presidencies still impose agendas that are out of touch with public desires while subservient legislatures and judiciaries fail to curb their excesses. National ministries often usurp local authorities. Where power is concentrated at the national level, decisions flow through a small number of hands, creating bottlenecks. In most countries, party leaders, not voters, choose candidates who are placed on party lists and elected according to the proportion of votes collected by each party. The result is arbitrary rule with a democratic veneer.

In general, poor public education contributes to poverty and blocks social mobility while, in countries like Cuba and Venezuela, indoctrination masquerading as education helps to ensure a subservient public. Inadequate investment in primary and secondary schools, scarce teaching materials, reliance on rote memorization instead of critical thinking, and lack of accountability at the local level contribute to low academic attainment and seem to go hand in hand with low productivity. (See Table 1.)

**Macro Success, Micro Duress.** By adopting the broad liberal economic recommendations known as the “Washington consensus” in the 1980s, Latin America escaped hyperinflation and acute underdevelopment. However, most Latin American economies are still manipulated to shield state or family-owned monopolies while placating the middle class and the poor with social programs. Increased trade helps already established industries and contributes to economic growth, but it fails to create enough jobs to keep up with population growth. As a result, some 44 percent of Latin Americans live in poverty.<sup>2</sup>

In general, weak property rights keep the poor from titling real estate, denying rights to sell or use it as collateral. Almost all Latin American constitu-

1. Corporación Latinobarómetro, “Informe–Resumen, Latinobarómetro 2005,” October 29, 2005, pp. 6–63, at [www.observatorioelectoral.org/documentos/data/info-latinba-2005.pdf](http://www.observatorioelectoral.org/documentos/data/info-latinba-2005.pdf) (February 23, 2006).

2. Economic Commission for Latin America and the Caribbean, *Statistical Yearbook for Latin America and the Caribbean*, 2004, p. 119, at [www.eclac.cl/publicaciones/Estadisticas/4/LCG2264PB/p1\\_1.pdf](http://www.eclac.cl/publicaciones/Estadisticas/4/LCG2264PB/p1_1.pdf) (January 29, 2006).

Table 1 B 1920

### Selected Country Indicators

Country	Political Institutions	Economic Freedom	Corruption Index*	GDP/Capita	Poverty Rate	Net Secondary Enrollment**
Argentina	Free	Mostly Unfree	2.8	\$7,165	44%	80.8%
Belize	Free	Mostly Free	3.7	3,635	33	60.4
Bolivia	Partly Free	Mostly Free	2.5	1,017	64	67.3
Brazil	Free	Mostly Unfree	3.7	3,510	22	71.6
Chile	Free	Free	7.3	5,872	21	74.5
Colombia	Partly Free	Mostly Unfree	4.0	2,017	55	53.5
Costa Rica	Free	Mostly Free	4.2	4,410	18	50.7
Cuba	Unfree	Repressed	3.8	2,516	–	83.4
Dom. Rep.	Free	Mostly Unfree	3.0	2,413	45	40.8
Ecuador	Partly Free	Mostly Unfree	2.5	1,368	45	50.0
El Salvador	Free	Mostly Free	4.2	2,129	36	46.0
Guatemala	Partly Free	Mostly Unfree	2.5	1,675	75	29.0
Guyana	Partly Free	Mostly Unfree	2.5	942	–	75.0
Haiti	Not Free	Repressed	1.8	467	80	22.0
Honduras	Partly Free	Mostly Unfree	2.6	927	77	38.2
Mexico	Free	Mostly Free	3.5	5,877	40	60.0
Nicaragua	Partly Free	Mostly Unfree	2.6	767	46	37.0
Panamá	Free	Mostly Free	3.5	4,167	37	62.4
Paraguay	Partly Free	Mostly Unfree	2.1	1,407	36	50.1
Perú	Free	Mostly Free	3.5	2,131	54	66.0
Suriname	Free	Mostly Unfree	3.2	2,257	70	59.1
Uruguay	Free	Mostly Free	5.9	5,235	21	71.7
Venezuela	Partly Free	Repressed	2.3	4,009	55	57.5
United States	Free	Free	7.6	36,067	12	88.4

\* The Corruption Index ranks countries on a scale of 1 to 10, with 1 being the most corrupt.  
 \*\* Percent of school-age population.

**Note:** Shading indicates two or more instability risk factors such as high poverty, low educational attainment, unfree political system, or unfree economy.

**Sources:** Freedom House, *Freedom in the World 2005* (Washington, D.C.: Rowman & Littlefield Publishers, 2005); Marc A. Miles, Kim R. Holmes, and Mary Anastasia O'Grady, *2006 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2006), at [www.heritage.org/index](http://www.heritage.org/index); Transparency International, "Corruption Perceptions Index 2005," at [www.transparency.org/policy\\_and\\_research/surveys\\_indices/cpi/2005](http://www.transparency.org/policy_and_research/surveys_indices/cpi/2005) (February 16, 2006); World Bank, *World Development Indicators Online*, at [devdata.worldbank.org/wdi2005/Section1.htm](http://devdata.worldbank.org/wdi2005/Section1.htm) (March 2, 2006); U.S. Central Intelligence Agency, *The World Factbook*, at [www.cia.gov/cia/publications/factbook](http://www.cia.gov/cia/publications/factbook) (March 2, 2006); Economist Intelligence Unit, *Country Reports, 2004–2005*; Organisation for Economic Co-operation and Development, *Main Economic Indicators*; U.S. Agency for International Development, "Haiti: FY 2001 Program Description and Activity Data Sheets," at [www.usaid.gov/pubs/bj2001/laclht/haiti\\_ads.html](http://www.usaid.gov/pubs/bj2001/laclht/haiti_ads.html) (March 2, 2006); and International Monetary Fund, "Honduras: Enhanced Initiative for Heavily Indebted Poor Countries," *Country Report No. 05/386*, October 2005, p. 13.

## Partial Economic Reforms Beget Partial Results

*Ana Isabel Eiras*

When Latin America aggressively opened its markets in the early 1990s, economists thought that this would eliminate bureaucratic distortions, attract foreign investment, and boost employment. However, beginning with Brazil's debt crisis in 1997, recession began to spread through the region, accompanied by political instability, financial crises, and a rise in poverty. Slow recovery left many Latin Americans wondering whether U.S.-style capitalism works.

Capitalism is the only economic system in history that is capable of combating poverty, yet its machinery involves more than trade and open markets. The main pillar is the protection of property rights through strong rule of law manifested in an independent and effective judicial system. Strong property rights provide stability that allows people to take risks and engage in economic activity. An independent judiciary keeps government officials from abusing the private sector and enforces contracts.

Other pillars include low taxation, limited regulation, and stable currency values. With simple rules, low taxes, and low inflation, the cost of doing business drops significantly, so more people choose to start businesses. A large corporation can create 10,000 jobs despite high

regulatory costs and high taxes, but countries need millions of jobs. The best job factories are small and medium-sized businesses. Although each small enterprise creates only a few jobs, hundreds of thousands of them can significantly reduce unemployment.

During the 1990s, Latin American governments removed some barriers by easing rules for foreign investment and by privatizing some state-owned industries. Those measures generated growth for a time. However, except for Chile, few countries went on to strengthen property rights, develop the rule of law, and reform laws that protected unproductive labor. Moreover, many so-called privatizations merely converted state monopolies into private monopolies.

To promote prosperity, Latin America does not need a new set of policies. Instead, it needs a commitment to property rights, the rule of law, low inflation, low taxes, and simple regulations. Untethered, ordinary Latin American citizens can then create wealth on their own.

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tions make subsurface resources such as minerals and oil the property of the state and ripe for misappropriation by corrupt officials. Lacking adequate revenue, governments fail to support adequate security forces to project state authority, leaving vast rural tracts potentially at the mercy of criminals, subversives, or terrorists. Priorities such as border control, disaster preparedness, and infrastructure maintenance also suffer.

## Demographics and Globalization

Expanding population spells trouble for societies lacking competitive markets. The Population Reference Bureau estimates that the population of Latin America and the Caribbean will grow from 559 million in 2005 to more than 700 million in 2025.<sup>3</sup> Economies that rely on raw materials exports and estate-based agriculture cannot pro-

3. Population Reference Bureau, "2005 World Population Data Sheet," p. 8, at [www.prb.org/pdf05/05WorldDataSheet\\_Eng.pdf](http://www.prb.org/pdf05/05WorldDataSheet_Eng.pdf) (September 18, 2005).

vide enough new employment to satisfy demand. Adding millions of new adults to the labor force each year will quickly exhaust the supply of jobs in a region where official unemployment already hovers around 10 percent and underemployment (where reported) is between 20 percent and 50 percent.<sup>4</sup>

As other developing countries advance with more schools and better curricula, most of Latin America will continue to spend meager amounts on outdated public education systems that rely on rote memorization and authoritarian teaching techniques. Secondary school attendance rose from 29 percent in 1990 to 65 percent in 2001.<sup>5</sup> However, the Partnership for Educational Revitalization in the Americas found in its 2001 report that most of the region was spending less than \$1,000 per pupil per year in primary and secondary schools compared to about \$6,000 in Canada and the United States.<sup>6</sup>

With local workers less prepared than those in industrialized countries, not enough jobs available, and large wage differentials between the region and the United States,<sup>7</sup> Latin America's jobless and underemployed will continue to migrate northward.

**China.** Since the 1990s, the People's Republic of China has become a major player in the Western Hemisphere. Capitalist reforms have transformed it

into a hybrid economy that incorporates some market principles. It is now the world's fourth largest economy and has a gross domestic product of \$1.6 trillion, which is growing about 9 percent per year according to the World Bank. However, China does not have sufficient oil, natural gas, or mineral resources to satisfy its energy and manufacturing needs. It needs trade partners to buy its electronics, apparel, toys, and footwear, and it would like to compete with the United States in America's backyard.

Table 2 B 1920

Economic Freedom and Productivity					
Selected Countries Compared to U.S. Cities					
Country	Population	GDP (\$billions)	City	Population	GMP* (\$billions)
Argentina	36,771,840	\$265.3	Washington, D.C. Metro	5,139,549	\$276.2
Bolivia	8,814,158	\$ 8.9	Springfield, Ill.	204,745	\$ 8.9
Brazil	176,596,256	\$619.9	New York Metro	18,709,000	\$901.3
Colombia	44,584,000	\$ 89.9	Sacramento Metro	2,016,702	\$ 86.0
Ecuador	13,007,942	\$ 17.8	Winston-Salem, N.C.	441,607	\$ 17.8
Guatemala	12,307,091	\$ 20.6	Wichita	584,671	\$ 20.7
Haiti	8,439,799	\$ 3.9	Goldsboro, N.C.	114,245	\$ 3.9
Honduras	6,968,512	\$ 6.5	Redding, Calif.	177,816	\$ 6.6
Nicaragua	5,480,000	\$ 4.2	Lebanon, Penn.	124,489	\$ 4.2
Paraguay	5,643,000	\$ 7.9	Olympia, Wash.	224,673	\$ 7.9
Peru	27,148,000	\$ 57.8	Nashville Metro	1,395,879	\$ 56.3
Suriname	438,100	\$ 1.0	Great Falls, Mont.	79,849	\$ 2.4
Venezuela	25,674,000	\$102.9	St. Louis	2,764,054	\$102.0

\*Gross metropolitan product.

Source: World Bank, *World Development Indicators Online*, at [devdata.worldbank.org/wdi2005/Section1.htm](http://devdata.worldbank.org/wdi2005/Section1.htm) (March 2, 2006); U.S. Central Intelligence Agency, *The World Factbook*, at [www.cia.gov/cia/publications/factbook](http://www.cia.gov/cia/publications/factbook) (March 2, 2006); Economist Intelligence Unit, *Country Reports*, 2005, and *Country Profiles*, 2003–2004 and 2004–2005; U.S. Census Bureau, "Cumulative Estimates of Population Change for Metropolitan Statistical Areas and Rankings: April 1, 2000 to July 1, 2004," at [www.census.gov/population/www/estimates/metropopl/table07.csv](http://www.census.gov/population/www/estimates/metropopl/table07.csv) (February 11, 2006); and Global Insight, "The Role of Metro Areas in the U.S. Economy," U.S. Conference of Mayors, January 13, 2006, at [www.usmayors.org/74thWinterMeeting/metroeconreport\\_january2006.pdf](http://www.usmayors.org/74thWinterMeeting/metroeconreport_january2006.pdf) (February 7, 2006).

4. Economic Commission for Latin America and the Caribbean, *Statistical Yearbook for Latin America and the Caribbean*, p. 97, and U.S. Central Intelligence Agency, *CIA World Factbook*, at [www.cia.gov/cia/publications/factbook](http://www.cia.gov/cia/publications/factbook) (January 29, 2006).
5. Economic Commission for Latin America and the Caribbean, *Statistical Yearbook for Latin America and the Caribbean*, p. 102.
6. Partnership for Educational Revitalization in the Americas, "Lagging Behind: A Report Card on Education in Latin America," November 2001, p. 23, at [www.thedialogue.org/publications/preal/lagging.pdf](http://www.thedialogue.org/publications/preal/lagging.pdf) (February 23, 2006).
7. Mexico's minimum wage is \$4.50 per day compared to \$5.15 per hour in the United States.

To do so, China has positioned itself to take advantage of Washington's waning interest in Latin American ties. It collaborates on spy satellite technology with Brazil and is cultivating military ties with other South American states.<sup>8</sup> It has pursued petroleum partnerships with Venezuela, Ecuador, Colombia, Argentina, Brazil, and even Mexico. To obtain other commodities, China offers tempting investments in infrastructure. However, by encouraging dependence on commodity sales, China could be retarding industrialization and job growth in Latin America. Moreover, China's state-to-state business deals are reinforcing the region's culture of monopolies and anti-competitive practices.

### Diverging Paths

Despite the efforts of the great liberators of the 19th century, Latin America has never been unified under a single banner, but a new order is emerging on the heels of presidential elections in 2005 and 2006. More countries are electing leftist governments as opposed to centrist or conservative ones. For the most part, moderate socialist governments are beginning to bridge the gap between traditional dictatorships and liberal democracies, blending state intervention with politics of choice. These include the governments of Brazil, Chile, Costa Rica, Uruguay, and even Mexico, which has a conservative president.

Elections have also produced a small but potentially growing number of hard-left regimes in which the majority of voters are poor and undereducated. These governments—characterized by centralized rule, polarization between leaders and opponents (typically considered enemies), and state control of major resources and industries—are opposed to free trade, representative democracy, and U.S. influence in the region.

**Cuba's New Friends.** Isolated and broke in the 1990s after the loss of subsidies from the Soviet

Union, Cuba's dictatorship has gained a new lease on life thanks to generous oil concessions from Venezuela. This alliance has given Fidel Castro breathing room and a renewed respect from Latin Americans who admire his longevity and fierce independence from the United States. How long the revival will last is uncertain. Castro appears to suffer from Parkinson's disease, and his brilliant if eccentric leadership of the hemispheric left appears to be nearing an end.

Until that moment arrives, populist imitators from Caracas to Buenos Aires are swaying masses of poor and working-class voters who see avenues for social mobility blocked in existing corporatist societies. Since 1990, numerous leftist parties around the hemisphere have joined the Foro de São Paulo, an organization that, like Castro, opposes representative democracy, market economies, and U.S. influence.

Venezuelan President Hugo Chávez has become Castro's most ardent follower and affluent supporter. Elected in 1998, Chávez has gradually constrained opponents and allowed Cuban monitors to form a shadow government within his own regime. He has supplied Cuba with subsidized petroleum since October 2000 and used oil profits to buy Argentine and Ecuadoran debt.<sup>9</sup> His largesse allegedly has helped to finance the campaigns of like-minded populist nationalist candidates in other countries. Yet, despite its oil riches, Venezuela has one of the higher poverty rates in Latin America.<sup>10</sup>

A less strident member of Castro's anti-U.S. alliance is Argentine President Néstor Kirchner, who has aligned Argentina with Cuba and Venezuela to gain access to easy credit and discount oil. In November 2005, he simultaneously hosted the Organization of American States Summit of the Americas and a "People's Summit," at which agitators demonstrated against President George W. Bush. Further north, Bolivian President Evo Morales

8. Frustrating U.S. efforts to have Bolivia stand down its man-portable surface-to-air missile inventory, China reportedly offered to replace decommissioned missiles at no cost. Bill Gertz, "China Proposes Missile Replacement for Bolivia," *The Washington Times*, February 27, 2006, p. A3.
9. The Venezuelan government reportedly sells these bonds without auction to friendly banks that pass them into the international market, with the banks profiting from differences in exchange rates. See Andy Webb-Vidal, "Venezuelan Banks Enjoy Treasuries Windfall," *Financial Times*, February 1, 2006, p. 45.



received help from the Cuban and Venezuelan embassies during his 2005 campaign and has vowed to become “Washington’s worst nightmare.”<sup>11</sup> Morales has since retreated from such harsh rhetoric, but he named a hard-line leftist cabinet and reportedly is creating a Cuban-trained security force parallel to the existing police and military.

In Peru, Ollanta Humala, a former army lieutenant colonel, is tapping discontent among Peru’s majority poor and running even in the polls with conservative Lourdes Flores Nano for the April 9 presidential election. A self-described nationalist, Humala admires Chávez and, like Chávez, once led a revolt against his government. Politics seems to run in the family—his older brother Ulises has also entered the presidential race, claiming to be an ultra nationalist. Last year, another brother commandeered a rural police station in an escapade that left four officers dead.

Thanks to quirky candidates, Ecuador could turn more toward Cuba and Venezuela following elections in October 2006. Former Economy Minister Rafael Correa—a critic of free trade and close ties with the United States—is running against an indigenous mayor, a banana magnate, and former President Lucio Gutierrez, who was dismissed from office last April by the national legislature. Ecuador is a major South American oil producer, and government officials claim that Venezuela is funding politicians who want to realign Ecuador with Chávez.

In Nicaragua, former comandante and perennial Sandinista Party Chief Daniel Ortega is making his fourth presidential re-election bid in a vote slated

for November 2006. The Sandinistas deposed dictator Anastasio Somoza in 1979 and imposed their own authoritarian regime. In 1990, under pressure from U.S.-backed counterrevolutionaries, Ortega permitted elections, which he lost. On leaving office, Ortega and close associates reportedly looted the central bank and seized hundreds of millions of dollars in property. Thanks to a devil’s bargain with former President Arnaldo Alemán, the Sandinistas control the electoral tribunals and courts, increasing chances for a rigged vote.<sup>12</sup>

### Potential Flash Points

The combination of personalistic populism, endemic poverty, and marginally educated populations poses problems for both the hemisphere and the United States.

**Venezuela.** Financed by huge government-controlled oil reserves, President Chávez sees himself taking over Fidel Castro’s leadership of the Latin American left and strengthening hemispheric ties to such rogue nations as Iran and North Korea. Emboldened by defeating an August 2004 recall vote by padding the electoral rolls and intimidating opponents, Chávez has consolidated his single-party rule, eliminating internal checks on his powers. A new “social responsibility” law permits the government to close radio and television stations for airing content “contrary to national security.” A strengthened criminal code imposes jail sentences for even mildly protesting the actions of public officials.<sup>13</sup> Meanwhile, prosecutors are rounding up opposition leaders for show trials conducted by provisional, handpicked judges.

10. Venezuelans have grown steadily poorer since the 1980s, when the poverty rate was an estimated 27 percent. Even under Chávez, who has supposedly increased spending on social programs, citizens are worse off, although the regime has tried to doctor official data to make it seem otherwise. In 2005, Venezuela’s National Institute of Statistics reported that the number of inhabitants living under the national poverty line had increased from 43.9 percent to 55.1 percent between 1998 and 2003. After journalists noted that these figures reflected badly on Chávez, the institute said that it would abandon “neoliberal” standards and recalculated the data to show a poverty rate of 38.5 percent. For background, see Andres Oppenheimer, “A Miracle! Venezuela’s Poverty Has Suddenly Fallen,” *The Miami Herald*, October 27, 2005, at [www.miami.com/mld/miamiherald/13007121.htm](http://www.miami.com/mld/miamiherald/13007121.htm) (January 26, 2005).
11. See Stephen Johnson, “Bolivian Election Reveals Need for Broader Engagement,” Heritage Foundation *Executive Memorandum* No. 988, January 26, 2006, at [www.heritage.org/Research/LatinAmerica/em988.cfm](http://www.heritage.org/Research/LatinAmerica/em988.cfm).
12. For an analysis of how this came about, see Sergio Ramírez, former Vice-President of Nicaragua, “Nicaragua’s Hijacked Presidency,” *openDemocracy*, November 18, 2005, at [www.opendemocracy.net/debates/article.jsp?id=3&debateId=33&articleId=3041](http://www.opendemocracy.net/debates/article.jsp?id=3&debateId=33&articleId=3041) (January 30, 2006).

Outside Venezuela's borders, Chávez is threatening non-leftist states. In July 2005, he inaugurated a regional satellite television network called Telesur that airs Marxist propaganda and bashes Colombia for its relations with the United States. He is friendly with the Revolutionary Armed Forces of Colombia (FARC) narcoguerrillas and wants Washington to end counterdrug efforts there. He opposes the proposed Free Trade Area of the Americas while advocating his own Bolivarian Alternative for the Americas (ALBA), a notional aid distribution network to be financed largely by Venezuelan oil profits.

Although the highway from Caracas to its international airport is in disrepair, Chávez has reportedly committed more than \$3 billion per year in aid to Latin American neighbors.<sup>14</sup> Moreover, he has proposed two energy cartels, PetroCaribe and PetroSur, to integrate Latin America's state hydrocarbon industries. He is also stocking up on rifles, buying armored vehicles, and acquiring attack helicopters from Russia. And in May 2005, despite controlling the world's seventh largest oil and tenth largest natural gas reserves, Chávez announced plans to acquire nuclear technology from Iran, fueling fears that he may try to develop a nuclear bomb.<sup>15</sup>

Within the United States, Chávez's government has paid lobbyists up to \$100,000 per month to polish his image before the public and U.S. Congress. It reportedly funds the Venezuela Information Office, a public relations firm registered under

the Foreign Agents Registration Act. Although they claim no direct link to the Venezuelan state, pro-Chávez activist groups called "Bolivarian Circles" have surfaced in Miami, Chicago, and other cities.<sup>16</sup> After years of persuading fellow OPEC (Organization of Petroleum Exporting Countries) members to suppress petroleum production to raise prices,<sup>17</sup> Chávez has negotiated with selected Members of the U.S. Congress to sell small amounts of heating oil at a discount to poor neighborhoods in northern U.S. cities, helping them to gain political clout.<sup>18</sup> Although Chávez complains that outsiders meddle in Venezuelan politics, he is trying to drive a wedge between American voters and their government.

**Colombia.** With help from the United States, Europe, and Japan, Colombia is successfully prosecuting a 20-year-old war on drug traffickers and ending a 40-year guerrilla insurgency. Coca and heroin cultivation, homicides, kidnapping, massacres, and sabotage against infrastructure are down, while desertions and demobilizations from rural irregular armies have increased following passage of a justice and peace incentives law.

For progress to become irreversible, Colombia needs to expand its security forces by at least half to pressure guerrillas and paramilitaries into complete demobilization. It also needs to assume greater responsibility for intelligence and coca eradication missions, which are now being managed by U.S. contractors. Colombia currently lacks air mobility and maritime patrol assets (light

13. On February 8, 2006, government prosecutors charged television journalist Napoleón Bravo of Venevisión with "insulting" the government for having commented that Venezuela's judiciary was politicized. Bravo now faces up to 15 months in prison. See "Journalist Facing 'Insult' Charge as Fears Mount over Draconian New Law," Reporters Without Borders, February 10, 2006, at [www.rsf.org/article.php3?id\\_article=16423](http://www.rsf.org/article.php3?id_article=16423) (February 28, 2006).

14. Andrés Oppenheimer, "Chávez Making Friends While Bush Earning Enmity," *The Miami Herald*, February 9, 2006, p. 12.

15. U.S. Department of Energy, Energy Information Administration, "World Proved Reserves of Oil and Natural Gas: Most Recent Estimates," January 18, 2006, at [www.eia.doe.gov/emeu/international/reserves.html](http://www.eia.doe.gov/emeu/international/reserves.html) (February 3, 2006), and Larry Rohter and Juan Forero, "Venezuelan Leader Eager to Start Nuclear Program," *International Herald Tribune*, November 27, 2005, at [www.ihf.com/articles/2005/11/27/news/chavez.php](http://www.ihf.com/articles/2005/11/27/news/chavez.php) (January 30, 2006).

16. See Mary Anastasia O'Grady, "Winning Hearts and Minds Inside the Beltway," *The Wall Street Journal*, April 9, 2004, p. A9, and Casto Ocando, "Redes chavistas penetran en EEUU," *El Nuevo Herald* (Miami), March 20, 2005, p. A1.

17. OPEC has raised oil prices from about \$9 per barrel when Chávez was elected in 1998 to above \$65 per barrel in 2006.

18. Stephen Johnson, "Venezuela's Oil Shenanigans Wash Up on American Shores," Heritage Foundation *WebMemo* No. 923, November 25, 2005, at [www.heritage.org/Research/LatinAmerica/wm923.cfm](http://www.heritage.org/Research/LatinAmerica/wm923.cfm).

cargo transports and surveillance platforms) as well as integrated intelligence capabilities. Unless these shortfalls are addressed, progress could stall. Venezuela's arms buildup and continuing support for guerrillas could further complicate Colombia's prospects for peace.

**Andean Region.** The heartland of South America is resource rich, but its societies are fragmented into minority elites and large indigenous and rural populations that have only recently gained suffrage and access to education. Bolivia, Colombia, Ecuador, and Peru have poverty rates above 45 percent. (See Table 1.) All have secondary school enrollment rates of only about 50 percent, except Bolivia, which increased attendance in the 1990s through investments in education. Most leaders still believe that social programs that put food on tables and roofs over heads are all that the poor really want, but continued migration to the United States and Europe proves otherwise. Coca production has risen steadily in Bolivia since 2002 and could rebound in Peru as well. Bilateral free trade agreements between the United States and these nations could create opportunities, but Andean societies need to better educate workers and liberalize economies to take maximum advantage.

**Central America.** Despite elections and market openings, Central America's public institutions are still too weak and corrupt to deal with changes brought on by globalization: rural migration to cities, the need for more industrial jobs, rising gang violence, and transnational crime. Poverty is not as high as it is in the Andean region, but secondary school enrollment runs from a low of 29 percent of the student-age population in Guatemala to a high of only 62 percent in Panama. According to the Inter-American Development Bank, Central America and the Dominican Republic now depend on \$12 billion in remittances from migrants living in the United States and Europe. If economies fail to produce opportunities and jobs and if governments cannot protect citizens, dissatisfied citizens will vote for populist demagogues or migrate elsewhere.

**Mexico.** Following the end of 71 years of single-party rule and more than a decade of free trade with the United States and Canada under the North Amer-

ican Free Trade Agreement (NAFTA), broad-based prosperity continues to elude most Mexicans. Energy and telecommunications remain in the hands of monopolies, and one-fifth of Mexico's labor force is tied up in an 80-year-old dysfunctional land tenure system. In recent years, the Mexican economy has created only 200,000–500,000 jobs per year. This is insufficient for the 1 million workers who now enter the workforce annually, leaving many to seek employment in the United States.

President Vicente Fox has done much to open Mexico's economy, but a divided congress has thwarted his attempts to privatize state monopolies, improve access to credit, and curb corruption. Next July, voters might replace him with the populist former mayor of Mexico City, Andrés Manuel López Obrador, whose economic proposals are as yet unclear. Running neck and neck in the polls is Felipe Calderón, the candidate of Fox's conservative National Action Party. Regardless of who wins, Mexican lawmakers could still block substantive reforms.

With his economic plans frustrated at home, Fox insists that jobless Mexicans have a right to seek employment in the United States. Despite collaboration on other issues, the Fox and Bush Administrations have come to an impasse on migration. Members of the U.S. Congress are advocating tighter controls to reduce flows and punitive measures against employers who hire undocumented workers. President Bush wants a guest worker program that will direct them toward legal entry points and encourage American employers to pay taxes. If reforms are blocked by recalcitrant lawmakers on both sides, collaboration on other matters may halt as well.

**Haiti.** Haiti has suffered a perpetual political crisis for most of its 200-year history. Prime Minister Gérard Latortue, his coalition cabinet, and multinational peacekeeping forces are trying to help Haiti recover from years of despotic rule under former President Jean-Bertrand Aristide, who resigned in February 2004. After the Bush Administration gave Aristide safe passage to the Central African Republic, it helped to arrange for peacekeeping forces, a transition government, and elections in the belief that elections would put Haiti back on a democratic trajectory.

The successful election on February 7, 2006, which returned former President Rene Preval to office, is a positive step but may not be enough to bring lasting peace or economic progress. Aristide's corruption left a bankrupt government, and international support needed for reconstruction is only trickling in. Recently, a U.S.-funded assessment team concluded that without "a firm international commitment, any new government will be ill-prepared to address the country's critical economic, institutional, and infrastructural needs."<sup>19</sup> Haiti's tiny 4,000-member police force cannot possibly address continuing violence and unrest between rival gangs. Moreover, migrant outflows and the growing presence of violent narcotraffickers in Haiti could threaten the stability of the neighboring Dominican Republic.

**Cuba.** Fidel Castro's 47-year-old stranglehold on this island nation still blocks the dreams and aspirations of 11 million citizens. Although no longer a direct threat to the United States since losing its Soviet sponsor, Cuba remains hostile, sharing electronic espionage and warfare capability with China and offering support for international terrorists and guerrilla groups. Nearly 80 years old, Fidel counsels Venezuela's Hugo

Chávez as well as hopeful imitators like Bolivia's Evo Morales. However, his incapacitation or death would remove the force of personality that holds together the Cuban state and energizes the region's revolutionary movements.<sup>20</sup>

Anticipating that eventuality, Fidel has named his brother, First Vice President and Minister of the Armed Forces Raúl Castro, as his successor. However, Raúl is uncharismatic, aging, and reportedly an alcoholic.<sup>21</sup> Cuban Vice-President Carlos Lage suggested a curious alternative during a visit by Hugo Chávez in October 2005—co-rule of Cuba by Venezuelan President Chávez—but that seems unlikely given Cuban national pride.<sup>22</sup> In any case, discontent with any successor regime could lead to a breakdown of order or even a massive exodus of asylum seekers to the United States similar to the Mariel Boatlift in 1980, which would force U.S. officials to make some hard decisions.

**Hydrocarbon Blues.** The Western Hemisphere consumed about 30 million barrels of oil per day in 2004, of which the United States used more than 20 million barrels, two-thirds of it imported.<sup>23</sup> As global economies expand, car ownership will rise and new factories will require more energy. As an example of the nexus between growth and energy

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19. Haiti International Assessment Committee, "Findings and Recommendations, Mission 2: November 11–13," 2005, at [www.iri.org/pdfs/12-09-05-HIAC%20Mission%202%20Report.pdf](http://www.iri.org/pdfs/12-09-05-HIAC%20Mission%202%20Report.pdf) (February 11, 2006). The committee is sponsored by the International Republican Institute. Members include former Senator Bob Graham (D-FL), former Representative Ben Gilman (R-NY), former Canadian Minister of External Affairs Barbara McDougall, and former Assistant Secretary General of the Organization of American States Christopher Thomas.
20. On November 17, 2005, Castro reportedly suggested his own mortality in a speech at the University of Havana, wondering whether his regime would end like the Soviet Union. On December 23, Foreign Minister Felipe Pérez Roque warned the National Assembly that Cuba's revolution could be rolled back, not by external enemies, but by the contemporary attitudes of Cubans. See Heinz Dieterich, "Cuba: Three Premises to Save the Revolution After the Death of Fidel," *Rebelión*, January 11, 2006, at [www.rebellion.org/noticia.php?id=25425](http://www.rebellion.org/noticia.php?id=25425) (February 8, 2006).
21. Brian Latell, "What If Raul Dies First?" *The Latell Report*, University of Miami, Cuba Transition Project, February 2006.
22. At the signing of the 6th Joint Commission on the Comprehensive Cooperation Agreement Between Cuba and Venezuela on October 5, 2005, Cuban Vice-President Carlos Lage reportedly said that "Our country has been accused of not having a democracy, but in events like this one we realize that we are one of the most democratic countries of the world, because we have two presidents, Fidel and Chávez," fueling speculation of a secret strategy for Chávez to co-rule Cuba with Fidel in order to step in and replace him when he dies, guaranteeing the continuity of a totalitarian government through a younger leader. See Gwynne Dyer, "Plan: Cuba with Two Presidents?" *Winston-Salem Journal*, October 26, 2005 at [www.journalnow.com/servlet/Satellite?pagename=WSJ/MGArticle/WSJ\\_ColumnistArticle&c=MGArticle&cid=1128767758149](http://www.journalnow.com/servlet/Satellite?pagename=WSJ/MGArticle/WSJ_ColumnistArticle&c=MGArticle&cid=1128767758149) (February 8, 2006).
23. U.S. Department of Energy, Energy Information Administration, International Energy Annual 2003, June 28, 2005, Table 1.2, at [www.eia.doe.gov/pub/international/iealf/table12.xls](http://www.eia.doe.gov/pub/international/iealf/table12.xls) (February 10, 2006).

consumption, China's petroleum use increased by 15 percent in 2004.<sup>24</sup>

Without significant discoveries of new reserves or technological advances, the world will face an energy crunch. The United States has estimated reserves of 21 billion barrels of oil (in decline since the 1970s) and 192 trillion cubic feet of natural gas. Canada has 178 billion barrels of oil and 56 trillion cubic feet of gas. Mexico has only 15 billion barrels of oil and 16 trillion cubic feet of gas.<sup>25</sup> These and other known global reserves might last for 30 years or more, barring no new discoveries.

Venezuela has an estimated 77 billion barrels of oil and supplies about 7 percent of U.S. needs.<sup>26</sup> On a 2004 visit to Beijing, President Chávez said that shifting exports to China will help to end dependence on sales to the United States. Following a February 2006 incident in which Venezuela and the United States expelled diplomats, he threatened to shut down refineries that the state oil company, *Petroleos de Venezuela, S.A.* owns in America. "It would cost me nothing to sell oil to other countries in the world," he said.<sup>27</sup>

Chávez would like to put other state hydrocarbon industries under his control and has offered his *PetroCaribe* and *PetroSur* energy cartels as vehicles. He has announced a preposterous \$20 billion, 5,000-mile gas pipeline from Venezuela to Argentina<sup>28</sup> and is advising President Evo Morales on nationalizing Bolivia's gas industry. Such cartelization would turn Latin American energy resources into political tools, promoting corruption and mis-

management while blocking incentives for needed foreign investment. With hydrocarbon supplies endangered by dictators or tied up in cartels and further development discouraged by taxes, fuel prices have nowhere to go but up.

### Missed Opportunities, Muddled Objectives

Historically, U.S. engagement with Latin America has been erratic, and it remains so today. The last time the U.S. government committed to a specific strategy toward Latin America was during the Reagan Administration in the 1980s, when defeating the Soviet Union and halting its advances in Central America were part of a comprehensive effort to win the Cold War. The United States conducted coordinated political, military, economic, labor, diplomatic, and even public relations efforts that helped to end an insurgency in El Salvador and a Marxist revolution in Nicaragua.

The succeeding George H. W. Bush Administration was pulled in different directions by the breakup of the Soviet Union and the Iraqi invasion of Kuwait. It shifted democracy aid to Eastern Europe, even though Latin America's political reforms had barely gone beyond elections. To his credit, President Bill Clinton won passage of NAFTA. Yet budget cuts prompted him to reduce Andean counternarcotics efforts even as President Jean-Bertrand Aristide's persistent lobbying goaded him into invading Haiti in 1994 to restore the ousted leader to power. By 2000, a spike in narco-

24. Jason Bush, "China and India: A Rage for Oil," *Business Week*, August 25, 2005, at [www.businessweek.com/bwdaily/dnflash/aug2005/nf20050825\\_4692\\_db016.htm?chan=gb](http://www.businessweek.com/bwdaily/dnflash/aug2005/nf20050825_4692_db016.htm?chan=gb) (February 7, 2006).

25. Based on estimates from U.S. Department of Energy, "World Proved Reserves of Oil and Natural Gas."

26. *Ibid.*

27. The refineries belong to the *Citgo Petroleum Corporation*, a subsidiary of the state-owned *Petroleos de Venezuela S.A.* Venezuela exports most of its oil to the United States but is interested in accessing a Panamanian pipeline to the Pacific Ocean to send more shipments to China and thus lessen reliance on the United States. See "Chavez Threatens to Jail Diplomats, Shut Oil Refineries," *Bloomberg News*, February 4, 2006, at [quote.bloomberg.com/apps/news?pid=10000086&sid=aIDwsjl7KIQo&refer=news\\_index](http://quote.bloomberg.com/apps/news?pid=10000086&sid=aIDwsjl7KIQo&refer=news_index) (February 8, 2006); Monica Perin, "Bidders Come Forward for *Citgo Refining Network*," *Houston Business Journal*, March 9, 2005, at [houston.bizjournals.com/Houston/stories/2005032/07/daily34.html](http://houston.bizjournals.com/Houston/stories/2005032/07/daily34.html) (March 16, 2005); and Associated Press, "Venezuela Considering Using Panama Pipeline," December 29, 2004.

28. Such a gas pipeline would be more expensive to build and operate than liquefying and shipping gas. "The Explosive Nature of Gas," *The Economist*, February 11, 2006, p. 36.

terrorism and reform failures in Haiti forced the White House to reverse course.<sup>29</sup>

President George W. Bush promised a “Century of the Americas” but tabled that idea to conduct the global war on terrorism and try to democratize the Middle East following the September 11 terrorist attacks on the United States. Still, the Bush White House made impressive advances on free trade. The President won congressional approval for trade promotion authority, concluded a free trade agreement with Chile in 2003, and concluded a similar pact with the Dominican Republic and five Central American states (DR–CAFTA) in 2005. Uruguay has approved a bilateral investment treaty with the United States, and trade promotion accords have been successfully negotiated with Colombia and Peru. A hemispheric free trade agreement may be possible if the United States and Brazil finally abandon their agricultural subsidies or if the issue is resolved in World Trade Organization negotiations.

**Lagging Commitment.** Blocked by Congress on a number of occasions, the Bush Administration took two-and-a-half years to assemble a Latin America team and continued Clinton-era tactics rather than embarking on a strategic agenda. Personnel choices reflected pressure from domestic constituencies to fill some positions and a desire to maintain the status quo by placing career officers in other positions. Support for programs to strengthen democracy has been switched on and off, depending on available funds, while big-ticket public health and environmental aid programs continue. Disarray following the 1999 merger of the U.S. Information Agency into the Department of State still inhibits public diplomacy, academic exchanges, and support for civil society programs.

Poor public relations has magnified perceptions that the United States is disinterested in Latin America. Although six Latin American states supported the Bush Administration’s decision to liberate Iraq—El Salvador even provided peacekeeping troops—U.S. Middle East policies are poorly perceived throughout the region. When an uprising temporarily removed Venezuela’s president from power in 2002, the Administration fumbled for words, suggesting complicity. Subsequently, Secretary of State Colin Powell asked former President Jimmy Carter to head an electoral observation mission to Venezuela that blessed a flawed recall vote on President Chávez’s rule.<sup>30</sup> In 2005, the U.S. House of Representatives passed a measure to halt illegal migration by building a fence between the United States and Mexico, which was roundly condemned by Latin American allies.<sup>31</sup>

In the background, security assistance to help Colombia combat narcoguerrillas is on the chopping block. Plagued by wing cracks, aging P-3 maritime patrol aircraft operated by the United States have not been replaced. The State Department’s Bureau of International Narcotics and Law Enforcement Affairs has lost 11 spray planes used to fumigate coca fields since 2000, while only three have been replaced. Colombia lacks adequate fixed-wing transport and maritime patrol aircraft, and its helicopters need maintenance.<sup>32</sup> Little noticed, U.S. Air Force radar surveillance that tracks drug trafficking planes and boats along the U.S. Gulf coast has steadily declined to the point that a gap in coverage now stretches from Texas to Puerto Rico.<sup>33</sup>

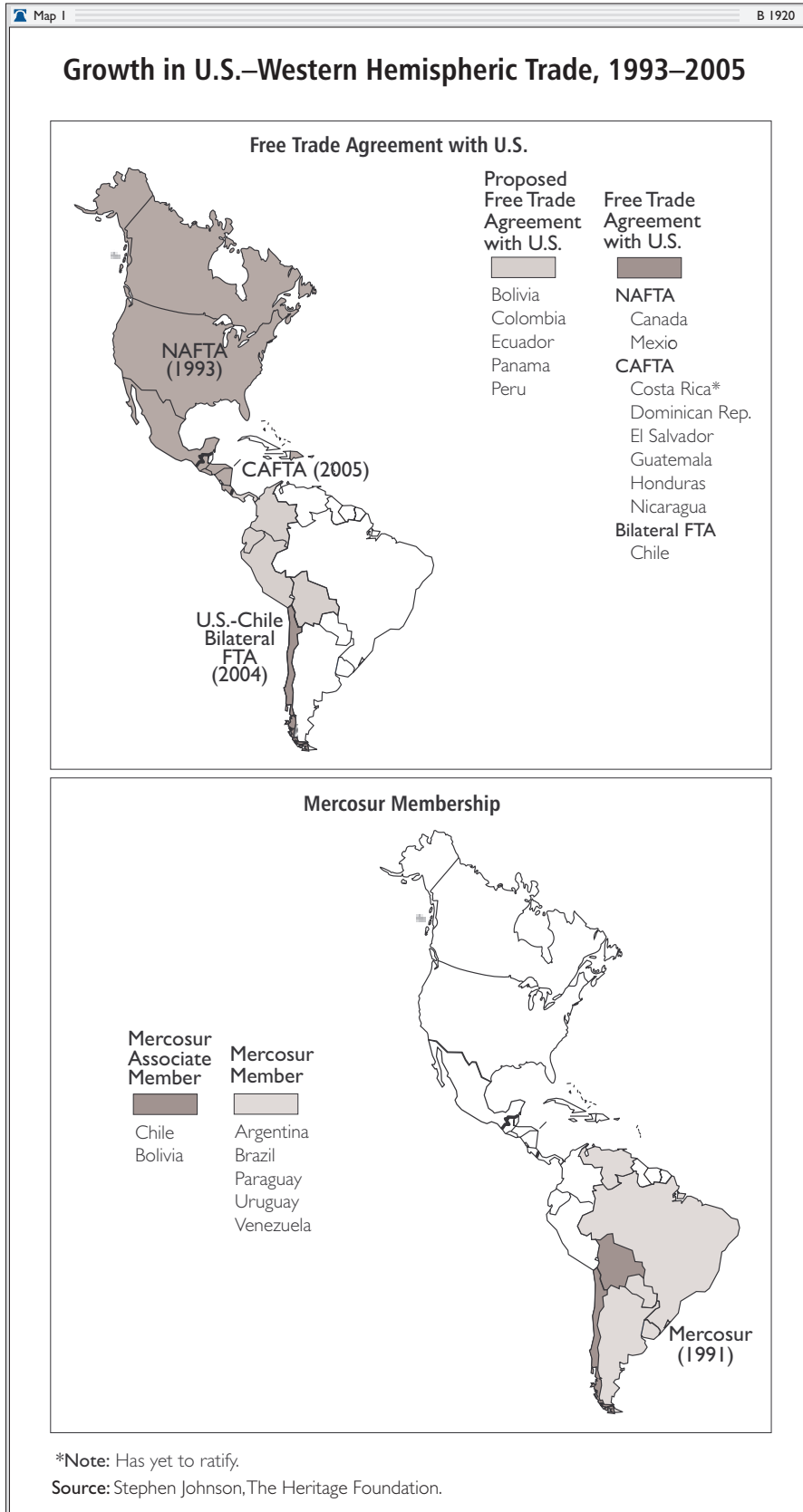
In 2005, the President replaced Secretary of State Powell with National Security Adviser Condoleezza

29. In January 2000, President Clinton requested \$1.6 billion in emergency security assistance to Colombia.

30. Bullied by Chávez into accepting observer limits on the referendum on August 15, 2004, President Carter hastily endorsed a contest marred by padded rolls and voter intimidation.

31. The House of Representatives passed the Border Protection, Antiterrorism, and Illegal Immigration Control Act of 2005 (H.R. 4437) on December 16, 2005. See also Sergio De Leon, “11 Countries Plan to Lobby Against U.S. Immigration Law,” *The Miami Herald*, February 14, 2006, at [www.miami.com/mld/miamiherald/news/13868760.htm](http://www.miami.com/mld/miamiherald/news/13868760.htm) (February 16, 2006).

32. House International Relations Committee Chairman Henry J. Hyde (R–IL) noted a 70 percent reduction in the availability of marine patrol aircraft to interdict drugs coming from South America, giving traffickers a 65 percent chance of successfully getting shipments into the United States, and said that “This failure rate is not what the American people expect from their federal officials.” Henry J. Hyde, letter to Secretary of State Condoleezza Rice, February 14, 2006.



## The OAS: Ally or Nuisance?

With roots in the First International Conference of American States in 1890 and chartered in 1948, the Organization of American States (OAS) was once largely a forum of dictatorships. Since then, it has evolved into an organization of representative democracies, with 34 member countries that respect human rights, civil liberties, and democratic institutions.

In 1959, the OAS established the Inter-American Commission on Human Rights (IACHR), which has processed more than 12,000 cases, some of which are decided by the IACHR's Human Rights Court.

In 1990, it inaugurated a democracy promotion unit, leading to passage of the Inter-American Democratic Charter on September 11, 2001, in Lima, Peru.

Underfunded because its members are perpetually behind in dues, the OAS has still helped to champion free trade, focus attention on security threats, resolve territorial disputes, and organize a series of Summits of the Americas.

The last summit was held on November 4–5, 2005, in Mar del Plata, Argentina, where Argentine President Néstor Kirchner and Venezuelan President Hugo Chávez failed to convince other members to turn against free trade and accepted definitions of representative democracy.

Unlike the United Nations, which has no standards for membership, the OAS defends democracy and human rights in the hemisphere. As long as debates are framed by those principles, the OAS can be a powerful ally, well worth the \$44 million the United States pays in annual dues.

Rice, who brought in a new Assistant Secretary and a Senior National Security Council Adviser for Western Hemisphere Affairs. Despite fresh personnel, the Administration still leans toward a default agenda to complete the remaining trade agreements with Andean states while further diplomatic efforts and resources remain focused on the Middle East.

**Coordination Problems.** Former Administrator Andrew Natsios hoped to prune the U.S. Agency for International Development (USAID) into a lean emergency response agency. That never happened, nor was the White House ever able to get it to focus on leveraging political and economic reforms that would allow sectoral development to have a more lasting effect. On January 18, 2006, Secretary Rice named Randall Tobias to replace Natsios and presented a plan to move the Administrator's office into the State Department to better align development programs with U.S. foreign policy. Untouched are other federal agencies that conduct proprietary foreign assistance programs such as Health and Human Services, Hous-

ing and Urban Development, the Treasury Department, and the Departments of Justice and Defense.

In 2004, the White House and Congress created the Millennium Challenge Corporation to sidestep USAID's cumbersome procedures and directly reward developing nations for improving governance and liberalizing economic policy. To receive a Millennium Challenge Account (MCA) grant, countries must meet specific criteria and then negotiate a mutually acceptable development project with the United States. The lapse between eligibility and award disbursement can be lengthy, during which time governments can change hands and policies change. Bolivia is a case in point. It has been eligible for a \$598 million grant since 2004 for 1990s-era economic, education, and political reforms. No award has yet been made, and now President Morales plans to reverse the policies that qualified Bolivia for its grant.

Single-interest diplomacy and shortsighted use of sanctions to leverage foreign actions have led Washington down blind alleys. For instance, U.S. insis-

33. *The National Drug Control Strategy for 2005 and the National Drug Control Budget for Fiscal Year 2006*, Committee on Government Reform, U.S. House of Representatives, 109th Cong., 1st Sess., July 18, 2005, pp. 54–58.



tence on coca crop eradication—to the exclusion of helping Bolivia confront growing political, social, and economic problems—contributed to that government's breakdown in 2003 and the election of a new populist president opposed to crop control. In another example, Congress and the White House agreed to use security assistance as a bargaining chip to get foreign governments to sign an agreement exempting U.S. servicemen from prosecution under the controversial new International Criminal Court.<sup>34</sup> In countries like Costa Rica where there is little public support for leaders to sign such a pact, the United States cannot help security forces to staunch the flow of arms and drugs transiting their borders unless President Bush signs a waiver, which would immediately weaken incentives for other countries to join such an agreement.<sup>35</sup>

### An Opportunity Agenda

The late Senator Paul Coverdell (R-GA) commented before the Council on Foreign Relations in April 2000 that three general problems affect much of Latin America: fragile democracies, failure to develop broad-based economic growth, and inadequate defenses against emerging threats—with each of these problems related to the other two.<sup>36</sup> That observation is still valid today. Yet as time passes with little to show for superficial changes, some citizens are returning to the failed but familiar solutions of the past, such as betting their hopes on populist strongmen.

In addition to foreign policy priorities elsewhere in the world, the Bush Administration needs a commitment and a firm strategy to guard against trouble on America's southern flank. Demographic pressures, the rise of competitive economies in Asia, and populism's spreading appeal portend growing problems that will affect the United States and neighboring democracies through declining export sales,

threats from terrorist insurgencies, rising crime, and increased illegal migration. As a world power that depends increasingly on markets and the well-being of other nations for its economic strength, the United States has an interest in helping its neighbors follow proven pathways to peace and prosperity.

Progress is possible if the President delegates authority to his Latin America team to act and coordinate with more agility than it has in the past. Ideally, it should recommit the United States to policies that will create opportunities so that the region can be a place where investments grow and people would want to live. Specifically, such policies should:

- **Promote deeper political reforms.** America's diplomacy and financial support should bolster homegrown efforts to improve governance by strengthening citizen control of political parties now dominated by founder-owners, establishing links between legislators and constituent districts, enhancing the separation of powers, and promoting equal treatment of all citizens under the law. Continued judicial reforms can help to modernize criminal codes, separate prosecutorial and judicial functions, and establish systematic rules of evidence to strengthen courts and make them more transparent. Such U.S. actions as revoking visas and freezing stateside assets of corrupt politicians and businessmen can help to curb corruption throughout the region.
- **Foster free markets.** The White House should vigorously pursue pending bilateral free trade accords with Panama and the Andean countries of South America. Congress should approve the recently negotiated bilateral investment treaty with Uruguay. It should be willing to abolish counterproductive subsidies for American agricultural products to advance negotiations on the Free Trade Area of the Americas. Beyond

34. Called Article 98 agreements, they are named after the section of the Rome Statute of the International Criminal Court (ICC) that established the court and entered into force in 2002.

35. The American Service-Members Protection Act (Title II of the 2002 Supplemental Appropriations Act, P.L. 107-206) suspends U.S. foreign military training, financing, and transfers of surplus defense articles to ICC member countries that have not signed an Article 98. Bolivia, Brazil, Costa Rica, Ecuador, Paraguay, Peru, Uruguay, and Venezuela fall into that category.

36. Senator Paul Coverdell, "A New Vision for the Americas," speech at the Council on Foreign Relations, Washington, D.C., April 14, 2000.

trade, U.S. diplomacy and assistance should help to strengthen property rights, simplify business licensing for small enterprises, encourage banking competition to make credit more affordable, and provide models for privatization that create truly competitive industries.

- **Improve security through regional cooperation.** To counter today's transnational threats, the United States should encourage regional partnerships based on day-to-day military-to-military and law enforcement-to-law enforcement cooperation to promote common standards and protocols. Congress should amend the Foreign Assistance Act of 1961 to allow targeted U.S. support for training and assisting foreign police to ensure their inclusion in a broad range of programs. U.S. Northern Command, in concert with America's traditional partner Canada, should invite Mexican defense forces to participate in activities that help maintain continental security, while U.S. Southern Command should continue to cooperate and train with military forces of friendly governments in the Caribbean and Central and South America. The Department of Homeland Security should help to improve liaison between American law enforcement agencies, border patrols, customs officials, and community police and their Latin American counterparts.

To strengthen implementation of these policies, the Bush Administration and Congress should:

- **State clear objectives and goals.** During his first term, President Bush emphasized trade as the route to stability and prosperity. Since the beginning of reconstruction in Iraq, the White House has developed a global democracy agenda as part of what it calls "transformational diplomacy."<sup>37</sup> Democracy, free markets, and security cooperation are three pillars that should be mentioned in every speech on Latin America to eliminate speculation that U.S. policies lack consistency.

- **Eliminate barriers to better ties.** Various U.S. government agency activities should mesh. The U.S. Broadcasting Board of Governors does not fund Latin American radio and television programming that could enhance USAID development programs, and development programs do not always match U.S. foreign policy goals. Folding USAID's leadership into the State Department will not help as much as would the President's tasking Cabinet secretaries to ensure better interagency cooperation, many of whom administer their own foreign aid programs. The Millennium Challenge Account process must be streamlined so that awards can be made when they will have the most beneficial impact. U.S. lawmakers should amend sanctions against countries that refuse to sign Article 98 agreements to give the White House discretion on what assistance to withhold. Finally, Congress should avoid earmarking aid measures to give the Administration more flexibility to implement immediate policy priorities.
- **Revive public diplomacy efforts.** State Department public diplomacy should expand people-to-people programs to bring diverse sectors of Latin America and the United States together. Academic exchange opportunities for working-class and indigenous students, books for libraries, and civic education teaching materials for schools can help to counter anti-American rhetoric that pervades educational institutions in the region. U.S.-supported binational centers that teach English and showcase U.S. culture lost funding in the 1990s. Centers that still exist in Latin America deserve renewed support.

To address specific countries and issues of concern, the Administration should take the following actions:

- **Venezuela.** U.S. diplomats must avoid responding to Hugo Chávez's provocations, which he uses to show followers that he can bully other countries. Meanwhile, Washington

37. Transformational diplomacy is defined as working "with our many partners around the world to build and sustain democratic, well-governed states that will respond to the needs of their people.... Transformational diplomacy is rooted in partnership, not paternalism—in doing things with other people, not for them." Condoleezza Rice, "Transformational Diplomacy," speech at Georgetown University, Washington, D.C., January 18, 2006, at [www.state.gov/secretary/rm/2006/59306.htm](http://www.state.gov/secretary/rm/2006/59306.htm) (February 10, 2006).

should support Venezuelan democrats by urging continued international scrutiny of human rights under Venezuela's emerging police state and by pressing U.S. allies to voice concerns about Chávez's dictatorial policies. To counteract his interventions in other Latin American countries, the United States must be more visibly engaged with hemispheric neighbors to occupy voids that Chávez might fill. Additionally, the Administration should expand Voice of America programming to balance regional propaganda broadcasts by Venezuela's Telesur satellite television network.

- **Colombia.** The United States should maintain current levels of security assistance to help Colombian forces demobilize illegal rural armies and secure borders. Such support must include funding to replace lost aircraft and to develop a marine patrol capability. It must also encourage Colombia to assume greater responsibility for crop eradication and intelligence gathering. Congress should amend the Foreign Terrorist Act to permit public and private assistance to demobilization efforts to promote a peaceful settlement of Colombia's 40-year internal conflict. USAID should shift development assistance from flawed crop substitution programs, which could be better managed by other donors, to crucial justice system reforms.
- **Mexico.** To help Mexico become a more equal partner in prosperity and security, the United States should press its leaders to open markets and improve schools to increase employment. In exchange for a guest worker program to help absorb Mexico's labor surplus and impose control over America's southwest border, the United States should ask the Mexican government to accelerate economic reforms to open closed commercial sectors and enable the growth of competitive enterprise. To improve cooperation on security matters, the Pentagon could invite Mexican soldiers to participate in North American military exercises. The Department of Homeland Security could establish exchanges for Mexican law enforcement, immigration, and justice system personnel through existing public diplomacy and USAID programs.
- **Central America.** The Bush Administration should encourage Central American leaders to take advantage of trade opportunities by opening economies through competitive transparent banking, strengthening property rights, and establishing the rule of law. U.S. support can improve public education by facilitating public-private partnerships to provide textbooks and supplies. The Department of Homeland Security's U.S. Immigration and Customs Enforcement agency should work with local U.S., Central American, and Mexican law enforcement authorities to share information on migrants and criminals returned to their countries of origin. The United States should continue training for community policing and fund a proposed International Law Enforcement Academy in El Salvador, ensuring adequate oversight by user governments and local participation in developing curricula.
- **Haiti.** The United States should organize a donor-nation supervisory council to advise and monitor Haiti's reconstruction for at least the next decade. Resources to help interim Prime Minister Gérard Latortue rebuild public institutions are coming in dribs and drabs, and this hampers both planning and progress. The Haiti International Assessment Committee sponsored by the International Republican Institute recommends "democratic deliveries" to quickly improve daily life, such as road improvements to facilitate intercity commerce, port enhancements to expand trade capacity, electrical cooperatives to restore energy distribution, and vocational skills training to improve worker employability.<sup>38</sup> This Caribbean nation of 8.4 million needs a security force five times its current 4,000-member strength to provide for public safety. Trade preferences like those in the 2004 Haiti Economic Recovery Opportunity Act, which died in the 108th Congress, could supply opportunities for badly needed employment.

38. Haiti International Assessment Committee, "Findings and Recommendations," p. 3.

- **Cuba.** The Bush Administration should continue sanctions against the Castro regime, but it should also provide and encourage third-party support for dissidents, human rights monitors, and independent journalists. As Castro's biological clock winds down, Washington should step up informal contacts with different sectors of Cuban society, using third-country nationals as necessary, to gauge the direction of a possible succession or transition. Meanwhile, the Bush Administration should define a set of post-Castro engagement principles and communicate them directly to the Cuban people, encouraging Canada and European allies to do likewise. U.S. officials could also consider blockading Cuban waters if a surviving authoritarian regime suddenly urges thousands of citizens to flee to the United States. Such a blockade could save lives and perhaps hasten the end of a despotic regime.
- **Energy.** The best way to avoid energy shortfalls is to foster competition and let markets respond to needs. First, the United States should press supplier nations to liberalize their foreign investment laws, break up state monopolies, phase out state ownership of energy resources, and reduce government intervention. Second, America could cut tariffs (currently 54 cents per gallon) on imported ethanol derived from cane sugar. Brazil has reduced its dependence on foreign oil by more than half by developing "flexible-fuel" vehicles that run on any combination of gasoline and ethanol. Currently, 4 million such cars are on U.S. roads.<sup>39</sup> Finally, allowing rising oil prices to shape consumer choices would increase demand for both exploration and new technology.

## Conclusion

Democratic reforms have unleashed powerful forces in Latin America. A few countries have embraced the politics of free choice all along, but many are only now opting for institutional gover-

nance over personalistic rule. Those that have traveled further down that road, like Chile, have become more prosperous. Where political and economic freedoms have been superficial or recent, as they have been in Venezuela or Bolivia, citizens are following populist demagogues who seize treasuries, squander resources, and confuse followers with hateful rhetoric.

As far back as the First International Conference of American States in 1890, the United States has generally encouraged regional cooperation and the development of democratic systems. Support for that approach has waxed and waned, but that does not mean that Washington can be complacent. More than 500 million people in Latin America and the Caribbean are linked to the United States through common geography. Moreover, Latin America is an important trade partner, with U.S.–Latin America merchandise trade totaling \$409 billion in 2004.<sup>40</sup> The United States also needs its neighbors' support in international bodies, such as the United Nations, and in shared tasks such as international peacekeeping.

Even as many Latin American countries are trying to sort out their politics, demographic pressures are working against them. Migration from rural areas to cities and from cities to other countries are compounding problems. Distant powers like China are exploiting political backwardness to gain economic clout. As important as the Middle East is to the United States, so too is Latin America. The United States should help to shape events there so that its neighbors will become more stable and prosperous.

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39. See Ariel Cohen, "Increasing the Global Transportation Fuel Supply," Heritage Foundation Executive Memorandum No. 986, October 25, 2005, at [www.heritage.org/Research/EnergyandEnvironment/em986.cfm](http://www.heritage.org/Research/EnergyandEnvironment/em986.cfm).

40. U.S. Department of Commerce, International Trade Administration, "U.S. Aggregate Foreign Trade Data," Table 6 and Table 7, at [ita.doc.gov/td/industry/otea/usfth/tabcon.html](http://ita.doc.gov/td/industry/otea/usfth/tabcon.html) (February 11, 2006).