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## **“U.S. Policy toward the Hemisphere: New Ideas for a New Administration”**

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### **Where Have We Been?**

A quick history of U.S.-Latin American relations goes something like this: At the beginning was the Monroe Doctrine, dating back to the 1820s. This assured against re-colonization, while allowing Great Britain, the rising economic power, to dominate in regional foreign investment and trade down to the First World War. The United States reached out more aggressively to Mexico and the Caribbean only after the Spanish-American War, and extended its engagement to much of the rest of the region after British retraction subsequent to that conflict.

With the Second World War, the United States emerged as the single, relevant, economic power. Politically, in the campaign against Soviet communism, the region, through the

Organization of American States (OAS), but also in the United Nations (UN), identified itself as totally allied with the United States. But Latin America was disappointed that the Marshall Plan was directed toward Europe alone. This frustrated hopes of rapid economic expansion and attracted the region, its larger countries in particular, to an import-substitution strategy led by CEPAL (the UN's Economic Commission for Latin America and the Caribbean).

Additionally, in the 1950s, Latin America searched for a more generous U.S. policy that went beyond private direct investment. The World Bank was insignificant, likewise dedicating its efforts to Europe. When then Vice President Nixon encountered hostile crowds during his 1958 trip to the region, there occurred a first step: the creation of the Inter-American Development Bank. A second, and larger effort, was the establishment of the Alliance for Progress in the Kennedy administration after the rise of Fidel Castro in Cuba.

That initiative, dedicated to internal reform as well as increased U.S. foreign assistance to meet rising balance of payments deficits, soon began to founder. Actual assistance was smaller than anticipated, provoking disappointment. Then the Brazilian military took power in early 1964, the first of what would be a series of military interventions throughout the region. U.S. governmental assistance, not to mention its original intent, began to disappear, replaced by funds from the World Bank and new private sources. Although regional economic growth did seem to accelerate in the 1960s and 1970s, in large measure it occurred because of rapidly increasing indebtedness, financed by accelerating commercial bank recycling of profits earned by petroleum exporters. The combination of a second oil shock in 1979 and of much higher interest rates imposed by the U.S. Federal Reserve Bank soon brought that interlude of growth to an end.

With the debt crisis, and domestic declines in income, came changes in government throughout the region. Armed forces eventually returned to their barracks, not always happily, and they were marked by economic defeat sufficient to deprive them almost universally of their previous decisive voice. The extent of economic decline was greater than that of the 1930s, and new Latin American policies began to emerge confronting domestic inflation and rejecting the previous strategy of high domestic tariffs, thereby, beginning to encourage exports. The United States had little involvement, save the strong support of the Contras and seeming acceptance of authoritarian governments where they survived, as in Chile. Neither would serve the country well in subsequent decades. Memory is long lasting.

In the 1980s, inflation began to be brought under control, sometimes without initial success, but increasingly through domestic strategies that were initially at variance with the International Monetary Fund. Only later, as these immediate, non-orthodox policies to eliminate price rises proved successful, would greater acceptance — but hardly universal acceptance — of the Fund occur. The write-down of country external indebtedness finally won support from the U.S. government in 1989. But that decision came late, contributing to a sense of greater nationalism that has persisted within the region, and has recently been very much reinforced. And so, when the United States belatedly reached out to Mexico in 1990 to join the Canadian free trade agreement, and immediately thereafter President Bush launched his hemisphere-wide Enterprise for the Americas Initiative, there seemingly was a new basis for engagement. President Clinton followed up, not merely supporting Congressional approval of NAFTA (North American Free Trade Agreement), but proposing formal extension in 1994 of freer trade to the hemisphere as a whole. A Free Trade Area of the Americas (FTAA) was to be

the central pillar of a new and more robust regional commitment, as there had not been since the days of the Alliance.

## **Where Are We Now?**

### Trade Negotiations

Expanding trade as the key to a positive hemispheric interrelationship was attractive to the United States. For one thing, the policy involved little increased expenditure. Areas of potential conflict such as agricultural trade could be avoided, by arguing their dependence upon a World Trade Organization (WTO)-generalized solution: The United States, after all, was quite eager to see reduction in the subsidies and exclusions of the European Union, as it had shown in the Uruguay Round. Opportunities for 'WTO-plus' rules dealing with intellectual property rights could mean real gains for the pharmaceutical sector as well as broader financial services where the United States saw its future comparative advantage.

For Latin American countries, the great merit was privileged access to the large U.S. market, opened in a slightly preferential way. More important than the tariff margin, which was generally quite small, was the newfound certainty: Domestic investment could occur, knowing that external buyers were sure to be there. That meant the possibility of greater growth. Not all sectors were equally happy, however: There were those fearful of greater competition from imports and foreign entry into the economy.

Further, there was real problem in pursuing an FTAA despite the original agreement in 1994. For one, President Bill Clinton's "fast track" authority expired in 1994, after approval of the Uruguay Round and establishment of the WTO. President George Bush secured Trade Promotion Authority only in 2002, and then the approval, by a single House vote, was sufficiently hedged to indicate Congress's reluctance to take on something as broad as the Doha Round or even an FTAA. Latin America provided the final touch: In the 2003 Miami meeting Brazil secured "FTAA-light," which was focused exclusively on merchandise trade. That signaled the end of the FTAA proposal, despite a subsequent presidential meeting and occasional diplomatic sorties. Everything thereafter was limited to particular bilateral free trade agreements.

Free Trade Agreements for Chile, Central America (including the Dominican Republic) and Peru have been approved — Colombia and Panama alone remain pending in the hemisphere. This is very far from the aims of the initial Miami Summit, not to mention the variety of other areas mentioned. Former Clinton administration official Richard Feinberg mentions "an unprecedented range of issues, including political, economic, social and environmental matters" that hemispheric countries were supposedly jointly to confront and resolve.

### Drugs, Immigration, Domestic Economic Pressures

The "inter-mestic issues," as Abraham Lowenthal has labeled them, those that affect daily lives within this country but whose source is international, very much remain central to any discussion of U.S.-Latin American relations. Two dominate — drugs and immigration —

although the impressive magnitude of return remittances has also emerged as a key question in recent years.

Plan Colombia, established in 1999 and designed to mitigate the narcotics traffic, has involved annual assistance of about \$750,000, but only had modest consequences. Supply continues to flow, not only to the United States, but also within Latin America. A major reason has been the growers' ability to plant the crops in the midst of coffee fields, making eradication from the air impossible. Current estimates suggest that while the exports of cocaine and marijuana from Peru and Bolivia have declined, those from Colombia and Mexico may have increased. One is talking about annual exports from these countries of roughly \$10 billion; subsequently, the value of the traffic is much increased as distribution of the drugs extends to the retail level. With the new Evo Morales government in Bolivia, there is already concern that the past reversal there will be undone. By contrast, President Felipe Calderón in Mexico seems to be vigorously attacking the problem domestically.

Much more of the U.S. budget for the War on Drugs — something on the order of \$15 billion — is spent domestically than abroad. The greatest part goes now, and clearly more will be allocated in the future, to patrolling the border in an attempt to limit access to the illegal imports. Expenditures are likely to grow, even as they steadily have over more than the last decade. Legalizing drugs, as some economists have proposed in order to capture some of the extraordinary markup through taxes and to discipline the market, is highly unlikely. U.S. foreign assistance to the region probably will continue, but its effects will remain small rather than decisive. This problem has no ready solution, whether here or within Latin America, so long as market demand assures great profitability. Drug trafficking will remain as a major irritant of hemispheric relations, the more so when some leaders see possibilities of gain by focusing upon the question.

On immigration, the effort to find an acceptable mechanism for legalizing the approximately 12 million of illegal residents, almost all from Latin America, awaits resolution in a next administration. The current economic slowdown aggravates the situation. Recession leads to demands for a more tightly controlled border and growing state pressure, as in Arizona and elsewhere, to send the illegal immigrants home. Congress failed in the last session to pass legislation that would have established new rules for temporary entrants, as well as fairly rigorous requirements for citizenship of those who had come illegally in the past. The reason is strong division on this issue within the United States, where differences transcend party affiliation.

For Latin America, emigration has been a mixed blessing: The better educated and more economically adventurous leave, but reduce the adverse domestic consequences of unemployment and underemployment. Remittances, rapidly rising within the last several years, have been an important and unequivocal positive. These have come to an estimated inflow from the United States to the region of something on the order of more than \$40 billion currently. Moreover, these private flows have primarily benefited the poor. Unfortunately, these flows depend upon the U.S. economy, and with the decline in construction, recent evidence suggests a slowdown in their rapid increase in recent years.

These inter-mestic issues will not let up in the future, nor are they capable of simple solution, whether here or abroad. They have waxed and waned, sometimes depending upon

politics, sometimes upon economics. They create pressures upon U.S. policies to find immediate answers. They are a given to which inter-American relations must find some way to respond.

### Latin America's Leftward Shift

U.S. policy toward the region has also been inevitably influenced by the political changes that have accumulated within Latin America over the last decade. The region, after an initial economic recovery in the early 1990s, was again buffeted by recession in the latter part of the decade as the global economy faltered. Then everyone criticized the new economic model of low inflation and reduced protection against imports, termed the Washington Consensus. That helped political opposition in the region to emphasize all the negative effects of greater closeness to the United States. Increasingly, in virtually all countries, elections have brought to power the left, just when George Bush was articulating a domestic and foreign policy that was very much the opposite.

Within the last 18 months, a number of elections have taken place within the region. The count confirms a much more leftward tendency. For instance, in Peru, Alan García, formerly a prominent (and failed) radical, barely edged Ollanta Humala, who was strongly supported by Venezuela's Hugo Chávez. Only in Colombia and Mexico could the conservative candidates, Álvaro Uribe and Calderón, be said to have won. And even then, Mexico's Calderón managed to win by a very small margin that was publicly contested by the PRD (Democratic Revolutionary Party) candidate, former Mexico City mayor, Andrés Manuel López Obrador.

These presidents, some re-elected, all have to cope with rising internal expectations associated with renewed global expansion and evidence of great advance of China and India, not to mention several other Asian successes. They have had important help. On the whole, the region has benefited from rising terms of trade as primary products, especially petroleum and copper, have soared to virtually record levels. Iron ore, soybeans and other minerals have almost kept pace. As Latin America has received measurable gains in disposable income from favorable moves in the terms of trade over the last five years, internal policy has on the whole — Venezuela exempted — retained its macroeconomic integrity. There are no longer large internal deficits, and low inflation is the rule: The wider public finally understands that rising prices especially handicap the poorest. This aversion to inflation was an important, but neglected, element in the recent defeat of Chávez's effort seemingly to become president for life.

If domestic policy is thus constrained, foreign policy is not. Radicalism, therefore, has surfaced most easily in direct opposition to the United States. Some elements are regional, like the FTAA or Plan Colombia. Others are international, like continued opposition to the war in Iraq, and support for Iran. The Doha Development Round provides still a third dimension, where sympathies, ironically, are more in tune with the EU, despite its greater distortion of agricultural markets. All such positions play to an internal political audience without affecting more orthodox domestic economic oversight. Presidents have learned to travel internationally with frequency. They use such occasions not merely to bolster the foreign objectives of their countries, but also to reinforce their popularity at home.

## The United States' Narrow Focus

A last point is necessary: 9/11/2001. U.S. foreign policy for the last years has been distorted by destruction of the Twin Towers. That has focused attention virtually exclusively upon Islam and the Middle East. Latin America has come to attention irregularly and with few innovations. Such neglect has not inflicted harm upon the region. Quite to the contrary: Latin American economic growth has recovered and remains at its highest level in more than three decades. Democracy has deepened. Advances in education, health and social programs have occurred.

## Where Should We Go From Here?

### The Private Sector Counts Most

What Latin America most wants now is continuing economic growth. A variety of polls regularly indicate such a preference. People wish for social policies that can alleviate current poverty, as well as provide opportunities for the next generation: extension of social security and special new programs for the impoverished, better and more universal education, improved health management, including opportunities for wider public access. They also want public investment in infrastructure, and a more coherent regulatory strategy.

Equally, the populations of almost all the countries wish for a substantial reduction of the social violence that has become such a regular feature of daily life. The rich barricade themselves behind guarded facilities; the poor most frequently suffer the consequences of inadequate police protection. But this is a matter for local politicians to resolve, as they will have to, over the course of time and economic advance. Some important problems have no place for external engagement. This is one.

The development process in Latin America now depends upon their private sector. Its decisions will influence how much the rate of productivity advances more than will the commitment of public resources. The governmental role remains significant, but its direct participation in capital formation is very much smaller than it once had been. Foreign direct investment, hopefully bearing the most recent technological advances, likewise can play a role, but without being determinant.

Foreign assistance programs have become a marginal matter for the region. USAID (United States Agency for International Development) provides a little more than \$500 million annually to Latin America and the Caribbean in economic assistance, excluding anti-drug programs and help for natural disasters. The Andes and the Caribbean are the principal recipients. The Millennium Development Corporation currently provides marginal additional assistance only to El Salvador, Nicaragua and Honduras. Contrast these measly sums with annual new loan commitments of \$7 billion from the Inter-American Development Bank and \$6 billion from the World Bank. Bilateral assistance is largely a thing of the past.

We are now in the seven good years of the cycle where prices and quantities of exports have both increased, enabling domestic incomes to gain from improved terms of trade. On the whole, the market has worked reasonably well. The task of appropriate U.S. policy is not only

to encourage countries themselves to plan for a future that may be less positive, but also to cooperate in making sure that inevitable future setbacks are small and temporary. No better example than the enormous recent fluctuation of stock markets across the world is needed.

That is why the principal component of U.S. foreign policy toward Latin America ought to be reinforcement of globalization. That is the secret of economic success in present circumstances. Earlier we erred by stressing regionalism. That is why summitry in the Americas produced so little: Its notable objectives did not adequately recognize the impossibility of effective implementation within the hemisphere alone. The relationship needs fewer promises, always forthcoming, and greater realism.

### United States Should Reinforce the Trend Toward Globalization

Completion of the Doha Development Round is essential to pushing the globalization agenda. This now awaits the next U.S. administration. Completion will be a clear and first signal of U.S. intentions toward the world, and especially the major countries within the hemisphere. Success depends upon accommodation of the outstanding agricultural issues, involving the form and magnitude of subsidies. Much progress has been achieved since the Cancún failure in 2003, and the key parties — the United States, the European Union, Australia, Brazil and India — have come close to resolving the differences.

Two internal U.S. steps are equally central to a resolution.

One is defeat of a new farm bill granting increased subsidies to domestic agriculture. In the current environment of high prices for wheat, corn and soybeans, not to mention still other products, smaller current payments can be converted into longer-term insurance that focuses upon small and medium-sized enterprises. If we are going to compete with Argentina and Brazil, we should do so on a level playing field.

The second needed step is U.S. commitment to greater temporary payments to workers losing out to their lower-paid international competitors. Trade Adjustment Assistance has been on the books for a long time, but always too small and limited in form. Now that imports of manufactures have become an important source of supply, the number of workers adversely affected has increased: Look at the transformation of the automobile sector. Accompanied by effective retraining, such assistance becomes a way of tamping down protectionist sentiment. At the same time, a labor force able to shift to new activities assures continuing gains in productivity.

Such efforts, in a likely Democratic Congress, provide the only way of assuring that we do not nip globalization just when it is budding for the first time within Latin America. For without such measures, polls already indicate our own commitment to free trade is on the decline. We have to make adjustments here for foreign policy to have a chance.

The problem of illegal entry of workers across U.S. borders will not be resolved by Mode 4 of the General Agreement on Trade in Service coming out of the Uruguay Round. That provision deals with multilateral agreements about temporary migration flows. It may help the U.S. domestic debate if there were more recognition that migration, like remittances, is already an international issue affecting a number of countries. TV personality Lou Dobbs will be aghast,

as will many others, but there are gains inherent in knowing how other regions are coping with the issue. Migration is a consequence of the last two decades of globalization and not specific to us.

Successful conclusion of the Doha Round should be understood as a central component of a strategy seeking better relations with Latin America. That is what the Alliance of Progress and recent decades' summitry promised, but did not deliver: an assured path toward prosperity. Thereby, the role of the WTO is also given an important boost. That, too, is important to the countries of the region who have utilized its independent judicial procedures to their advantage. International law is an important equalizer, and works both ways.

A second question directly affecting Latin America is the environmental one. The meager advances made at the regional level make more pressing the issue's transformation to more universal status. Resolution of global warming involves preservation of the Amazon region and other forested resources across the world. At the same time, rising carbon emissions will have to be checked. The Kyoto agreement, which the United States never ratified, left developing countries without contractual obligations. With the rapid advance by China as a source of emissions, as well as India at a lesser pace, this circumstance cannot be repeated in the next attempt to establish global rules.

At the recent Bali meeting, which concluded ambiguously, there emerged signs that the country representatives were gaining greater comprehension of the seriousness of the threat. Intermediate reports of the UN's Intergovernmental Panel on Climate Change have helped to convert skeptics to belief: Temperature change is occurring and will have consequences. Even the U.S. Congress has begun more serious discussion of this issue, reinforced importantly by the rise in petroleum prices that have raised the issue of greater conservation as well as use of non-petroleum sources of energy. Questions about the virtues of carbon taxes versus carbon limits with trading possibilities are in the process of becoming a regular part of our political landscape.

Brazil, with its much earlier use of ethanol produced from sugar as fuel for automobiles, is very much at the center of the international discussion of energy alternatives. Nor is it surprising that President Luiz Ignácio Lula da Silva has managed to find some common ground with President Bush on this issue. Sugar is much more energy-efficient as a source of ethanol than is the corn used in the United States. But future research may yet make other organic products better than both. Brazil is deeply engaged in this process, and has entered into new agreements with the United States. Wild grass, tree trunks and still other sources of supply are currently feasible alternatives, although still too expensive to compete commercially with sugar and corn.

Future clean energy requirements will inevitably involve agreements and their execution by Latin American countries; the Amazon goes well beyond Brazil alone. Equivalently, the environmental issue goes well beyond the region, and involves other developing and industrial nations. It is far better to engage all the principal actors functionally, as with trade, than to duplicate with a specifically regional focus.

A third area for broader Latin American involvement includes the issues of peacekeeping and poverty reduction. Both afford opportunity for U.S. engagement, but through the intermediary of a broader, global structure.

On peacekeeping, Haiti comes instantly to mind. When peacekeeping there was managed directly under U.S. auspices, results were slim to nil. Now that Brazil is engaged as a principal, with several other Latin American countries also contributing under UN supervision, progress, albeit slow, seems to be continuous and in the right direction. That should be a precedent. Multilateral management is working. While a regional effort in this instance, it could be elsewhere. The key point is that the United Nations is directing the process.

Programs like Brazil's Bolsa Familia and Mexico's Progres-a-Oportunidades have been effective methods for combating poverty, with attendant improvements in health and education. These are capable of export, with appropriate modification, to other developing countries. The undertakings have generated wide international interest as shown by the considerable attendance at the UN meeting in 2003 where they were discussed.

These three areas provide a new basis for U.S. interaction with countries in the region, interaction of a different kind than has been the case historically. They are surely not the only ones. This new emphasis does not exclude continued bilateral engagement and involvement. Individual countries are not all the same. What this focus does do is eliminate the temptation to find new and exclusive opportunities for Latin America and the United States to engage. Indeed, terminating the myth of a regionally-oriented policy should allow for better and more differentiated bilateral policy to emerge. To encourage this direction of change, one might, at long last, put an end to the Organization of American States, an idea without much practical meaning in the recent decades.

But what should be done about Cuba and Venezuela? How do they fit in? Quite well, by the very fact that each requires individual treatment.

After all, Cuba has been an anomaly for regionally-oriented policy for a long while. Latin America reestablished diplomatic relations but the United States did not. Cuba is excluded from the OAS, but remains an active member of the United Nations and other global institutions. Eventually, joint re-engagement will come. When it does, the relationship will be preeminently a new bilateral one. Other countries in the hemisphere will be relevant, but so will Spain.

Venezuela, under Chávez, merits U.S. concern. Some of his activities, like participation in Mercosur and the new Bank of the South, take on a clear regional perspective. At current oil prices, Venezuela has abundant resources to further its anti-U.S. position. But other activities, like the OPEC (Organization of the Petroleum Exporting Countries) oil price, and negotiations with Iran and China, do not fit within that same regional box

The United States can wait and watch. The Venezuelan economy, despite record petroleum prices, has great difficulties of its own: a growing internal deficit provoking high inflation, a much overvalued exchange rate, shortages of essential imported goods, and above all, a continued reliance upon oil without the necessary investment to develop the Orinoco tar sands. These are not indications of long-term stability. The Bolivarian Republic of Venezuela requires continuing attention, not continuing obsession.

## **Conclusion**

Latin America is not where it was fifteen years ago. Now, for the first time, the region exhibits economies that register single digit inflation; rely upon privatized, rather than state, enterprises; and depend increasingly upon expanding international trade. Politics are deepening and public institutions have become more transparent. Advances are occurring in the social sphere as well, as educational enrollment rates advance and poverty levels decline.

What must equally change is U.S. foreign policy. For too long, we have sought to design a region-wide strategy to fulfill U.S. objectives. This is the time for the next president to focus differently by implanting a new global and bilateral emphasis.

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