U.S. POLICY TOWARD LATIN AMERICA

Policymakers should

- facilitate dollarization for any country that wishes to adopt the dollar as its national currency;
- merge all hemispheric trade agreements into a single Free Trade Area of the Americas;
- end the federal ban on marijuana to allow imports from Latin America as a first step to end the hemispheric war on drugs; and
- get rid of tariffs for Latin American agricultural products.

Latin America has witnessed dramatic political swings in the past several years. Between 2015 and 2018, the first wave of "21st-century socialism" seemed to have been defeated. In Venezuela, the opposition took control of the National Assembly; Argentine voters got rid of the Peronist government; in Chile and Colombia, center-right candidates won presidential elections against communist-backed opponents; and in 2019, massive protests and the loss of support from the military forced Evo Morales, the left-wing Bolivian strongman who had been in power since 2006, to flee the country after carrying out a fraudulent election. Since then, however, the so-called pink tide—as some referred to the succession of far-left, anti-American governments that came to power in the 2000s—has returned with a vengeance.

The Maduro regime remains in power in Venezuela, a formerly rich country that is now poorer than Haiti, and the opposition has little or no chance of gaining power democratically. In Argentina, former president Mauricio Macri failed to curb public spending or inflation, thus paving the way for a return to Peronism in 2019. In Chile, the most successful economy in the region since the 1980s, former president Sebastián Piñera yielded to violent protests in 2019, when he decided to hold a referendum on whether to uphold the current constitution. In a landslide, voters opted for a constitutional convention. In 2021, Gabriel Boric, a progressive parliamentarian, comfortably won the presidential election in a runoff and formed a coalition with, among others, the

Communist Party. In Bolivia, Morales's Movement for Socialism returned to power in 2020, when his former finance minister was elected president. In Colombia—where the United States has spent $12 billion in failed anti-drug efforts since 2000—Gustavo Petro, a former guerrilla fighter and adviser to Hugo Chávez, was elected president in June 2022.

Even in Peru, where free-market reforms had led to some of the most significant economic and social progress in the region during the past three decades, the 2021 presidential campaign ended with the victory of Pedro Castillo, a union leader who represents a Marxist-Leninist party. In Brazil, former Workers' Party president Lula Da Silva (2003–2010), who was jailed because of the Odebrecht corruption scandal, was returned to power in the October 2022 election over the embattled firebrand Jair Bolsonaro, who promised a free-market revolution but failed to privatize state monopolies as he implemented a wide array of subsidies and handout schemes. Mexico, the largest Spanish-speaking Latin American country, has itself turned toward a populist, highly centralized rule with a greater involvement of the military in the economy under Andrés Manuel López Obrador, the current left-wing president. Among other heavy-handed measures, López has reversed his predecessor's much-needed liberalization of Mexico's energy sector.

The Return of Protectionism

The new leftist governments in Chile, Colombia, Mexico, and Peru all embrace trade protectionism, raising questions about the future of the Pacific Alliance, a promising bloc formed in 2011 to abolish all barriers to the free movement of goods, services, capital, and people among its four original member states. Ecuador is set to join the bloc in 2023, and several other Latin American countries have expressed interest in full membership. In early 2022, Singapore became the first associate member, as the bloc seeks to increase its trade with Asia. In 2016, the protocol that eliminates tariffs on 92 percent of the products traded within the bloc went into effect, and it stipulates that the remaining 8 percent will be phased out by 2030.

The Pacific Alliance requires firm commitments to freer movement of goods and people, and it only admits as members those nations that agree to fully comply with its ambitious goals. It is uncertain, however, whether protectionist governments will press ahead with the bloc's liberalizing mission. Peru's Castillo, for instance, invoked economic nationalism in his promise to renegotiate all of his country's free trade agreements (FTAs), including that signed with Mexico, a cornerstone treaty of the Pacific Alliance. In Colombia, Petro promises to renegotiate all of the country's FTAs, including that signed with the United States.

Similarly, Chile's president, Gabriel Boric, promised to alter his country's FTA with the United States so as to saddle American investors with a list of local content requirements. Such thinking marks a clear contrast with former Chilean governments, even those of the center left. After all, it was the administration of Ricardo Lagos, a social democrat, that signed Chile's landmark FTA with the United States in 2004, less than a decade after Mexico had officially entered the North American Free Trade Agreement in 1995. Thereafter, Washington negotiated trade deals with the Central American nations and the Dominican Republic (2006–2009), Peru (2009), Panama (2012), and Colombia (2012).

In the short term, these agreements consolidated any previous market access and set common standards on rules of origin and nontariff regulations. Meaningful market openness was meant to take place in the ensuing decades, as the lengthy periods of tariff phaseouts were completed. A similar process arose between numerous Latin American countries and Canada, China, and the European Union, among others. During the next few years, there will likely be a relapse into protectionism after two decades of liberalized trade in the hemisphere and beyond.

Commodities and Fundamental Reforms

Not for the first time in recent history, Latin America's shift to authoritarian, interventionist regimes is coinciding with a massive upswing in commodity prices, a rise exacerbated by Russia's invasion of Ukraine. The current commodities boom might be the initial stage of a secular bull market in a series of Latin American exports, such as oil, gas, copper, beef, and soy. This means that, after years of relatively low prices, there are now strong tailwinds behind many of the region's economies. According to CERES, a Uruguayan think tank, the countries that stand to benefit most under the current macroeconomic circumstances are the net exporters of both energy and foodstuffs, namely Argentina and Brazil. Net exporters of one of the two—for example, Colombia in the case of oil, Paraguay of food—will benefit to a lesser extent. Meanwhile, the net importers of both energy and food are poised to struggle.

As in previous cycles, the commodities boom is benefiting those Latin American governments that can impose windfall taxes on extractive industries or exploit natural resources directly through state-owned companies, such as Brazil's Petrobras or Argentina's YPF oil concern. Although accelerated growth will offset the sharp COVID-19–induced GDP decline of 2020, the bonanza will also tempt governments to spend beyond their means, increase debt levels, expand state payrolls, and multiply subsidy schemes in order to increase their political support, all at the expense of fiscal discipline and much-needed structural reforms. In the past, high commodity prices have concealed even the most destructive forms of collectivism, as was the case during much of Hugo Chávez's presidency in Venezuela (1999–2013), where $1 trillion in oil revenues did not suffice to avoid a debt-fueled, self-induced economic catastrophe.

Even if Venezuela's precipitous economic collapse is unlikely to be replicated, most Latin American economies still have underperformed because of weak property rights, rigid labor laws, and a predominance of anti-business regulations. They tend to tax companies heavily and maintain substandard public education systems, which are under the monopolies of ideologized teachers unions. Reforming these key sectors is essential to increase formal employment rates, attract foreign investment, and train a workforce that can compete in the 21st-century economy. Doing so, however, has usually not been a priority for the region's governments, much less for those that have recently come to power.

Liberal Democracy

After decades of progress, liberal democracy is under threat in the region; illiberal regimes are more commonplace, and dictatorships have taken root. Cuba's tyranny and its satellites in Venezuela and Nicaragua continue to oppress their own people with utmost brutality. This fact came briefly to the world's attention in 2021, when the Cuban regime crushed a rare outburst of mass protests in favor of democracy and economic liberties. For his part, Nicaragua's Daniel Ortega incarcerated all his main political opponents before a presidential election. This action came a mere three years after the so-called Mother's Day massacre of 2018, when the Ortega regime killed 15 anti-government protestors and left nearly 200 wounded.

These regimes are bent on expanding their influence across the region, as was evident with Venezuela's open support for organized street violence and attacks against urban infrastructure in Santiago, Bogotá, Quito, and other cities between 2019 and 2021. The Maduro regime had already destabilized its neighboring countries by causing the humanitarian collapse that, amid widespread shortages of food and medicines, led 6.5 million people to leave Venezuela as refugees—an exodus that placed severe pressure on the poorly financed health and education systems of the nearest South American countries.

Even within Cuba's sphere of influence, however, it is evident that not all regimes of 21st-century socialism, a preferred term of Hugo Chávez, are created equal. Venezuela followed much of Cuba's communist recipe, with rigid exchange, price, and capital controls; the nationalization of farms and entire industries; monetary debasement and uncontrolled public spending; and the military in charge of central economic planning. In Argentina, the left-wing administrations of the late Néstor Kirchner and his successor—and wife—

Cristina Fernández became increasingly authoritarian as they implemented some policies similar to those of Venezuela, such as nationalizations, currency and exchange controls, and unsustainable levels of public spending financed by inflation. Nevertheless, republican institutions largely withstood the onslaught, to the extent that voters were able to defeat Peronism in 2015.

Other left-wing governments eroded property rights and civil liberties while stopping short of the economic precipice. In Bolivia, Evo Morales nationalized energy companies, public utilities, and airports as he got rid of most institutional checks on his presidential power. Nevertheless, he shied away from price controls early in his presidency, thus avoiding widespread shortages. Morales built the world's largest foreign exchange reserves as a proportion of GDP. He even pegged the local currency to the U.S. dollar, thus helping achieve low inflation levels. In Ecuador, former president Rafael Correa likewise set up an authoritarian presidency, got rid of term limits, and severely curbed press freedom. But he was unable to undo the country's successful policy of dollarization, which 89 percent of citizens supported in a 2020 poll. Nicaragua's Daniel Ortega has maintained a significant degree of fiscal discipline and economic freedom—including the country's FTA with the United States—even as he sent hundreds of dissidents to jail and his regime killed many more. In 2016, the International Monetary Fund closed its office in Managua because of "Nicaragua's success in maintaining macroeconomic stability and growth." Not all the region's declared socialist leaders practice orthodox socialism.

Foreign Policy

With regard to foreign policy, Cuba, Nicaragua, and Venezuela do see eye to eye, and they have formed alliances with the world's most powerful authoritarian states. This action has led to a type of meddling in other countries' affairs that transcends regional geopolitics. Russia, for instance, has armed the Venezuelan regime heavily and used its territory to destabilize Colombia, a longtime U.S. ally whose guerrilla insurgencies receive clandestine support from Moscow. For its part, China has also helped prop up the Maduro regime, but its influence in Latin America extends much further. In fact, China recently became Latin America's top trading partner, with strategic investments in infrastructure, minerals, and agricultural commodities across the region. Although the United States' autocratic adversaries have been gaining ground in the Western Hemisphere, the postpandemic era offers numerous opportunities to strengthen America's ties with Latin America and serve as an attractive example of liberal democracy.

According to the International Monetary Fund, Latin America is uniquely positioned to ease the global food, metal, and energy shortages that Russia unleashed with its war against Ukraine. For its part, *The Economist* argues that "the capriciousness of Chinese regulators, the tangled state of global trade and the trend towards reshoring and nearshoring" make Latin America an ideal location to supply the United States and vice versa. Regional economic integration should be a priority, and thus the United States should promote "lower trade barriers, harmonize provisions across . . . trade agreements and clear up onerous customs procedures."

On the other hand, Washington should avoid greater political interference, military aid, and bilateral aid packages. In fact, sending large amounts of U.S. taxpayer money to countries with serious institutional flaws not only fails to solve the recipient nations' problems, but also can exacerbate them. A good example was seen in the "Northern Triangle" countries of El Salvador and Honduras, whose grades in the Rule of Law dimension of the World Bank's Worldwide Governance Indicators deteriorated in the 2010s. Meanwhile, both countries were receiving hundreds of millions of dollars in U.S. aid from the Millennium Challenge Corporation, supposedly for fighting corruption and improving governance. Instead of spending money on costly and counterproductive aid packages, policymakers should consider how Washington's war on drugs contributes to instability and corruption in Central America, especially as regimes with authoritarian tendencies, such as that of Nayib Bukele in El Salvador, take root.

Trade, Not Aid

U.S. lawmakers should also focus on allowing American businesses and consumers to strengthen their trade links with their Latin American counterparts. One obvious area in which unilateral liberalization would offer considerable opportunities for Latin American producers, while benefiting American consumers, is agriculture. Take the case of the U.S. sugar program, which, as the Cato Institute's Colin Grabow notes, manipulates the internal market so that "domestic sugar prices . . . are typically twice those of the world sugar market." The program's arbitrary loan rates, overall allotment quantities, and tariff-rate quotas increase prices for American sugar consumers and businesses that use sugar in their production process, some of which have moved their operations to Mexico because of that country's privileged access to the U.S. market through the United States-Mexico-Canada Agreement. Scrapping the program altogether would open the American consumer market, one of the world's largest, to companies in other sugar-producing countries in the region, among them Brazil, Colombia, Guatemala, and Peru.

Access to the nascent legal marijuana market in the United States also would benefit Latin American nations. As Congress debates a series of bills to end the federal prohibition of the substance, policymakers should consider eliminating all restrictions to imports of marijuana and marijuana-based products. Doing so would offer myriad opportunities for investment, job growth, and wealth creation in Latin American countries with a competitive advantage in cannabis production.

Free trade with Latin America, however, should go beyond specific industries or even the existing free trade agreements between the United States and several countries, which include the Pacific Alliance nations as well as those of Central America and the Dominican Republic. In 2005, Argentina, Brazil, and Venezuela—which are members of the Southern Common Market (Mercosur), a protectionist tariff union—killed the idea of a hemisphere-wide free trade area stretching from Alaska to Patagonia. However, there is now an opportunity for a substantial hemispheric trade agenda, especially since Uruguay, also a Mercosur member, is seeking a bilateral FTA with the United States, even if this takes place outside the Mercosur tariff union structure. Lawmakers should take advantage of the occasion; a trade agreement with Uruguay could lead quickly to others with Paraguay and even Brazil, the region's largest economy. In early 2021, in fact, Brazil's President Bolsonaro requested a free trade agreement from President Biden. Eventually, the liberalization of Mercosur—or, alternatively, its fracturing—could even result in free trade between the United States and Argentina.

Since the countries that have free trade agreements with Washington also have similar deals among themselves, there is already a fragmented version of a Free Trade Area of the Americas (FTAA) despite some gaps. One obvious problem with the current pattern of FTAs is the so-called spaghetti bowl effect, a term coined by economist Jagdish Bhagwati to describe a multitude of trade agreements with different rules of origin, tariff schedules, and nontariff regulations. The United States should lead an effort to merge all the regional free trade agreements into a single FTAA, at least for the nations willing to be part of it. The negotiations could also help complete those missing links in the hemispheric trade jigsaw puzzle. The FTAA would leave the door open for other Latin American countries that might want to join in the future.

During the 2022 Summit of the Americas in Los Angeles, Biden inaugurated the Americas Partnership for Economic Prosperity, an agenda whose talking points include "reinvigorating regional economic institutions," "creating clean energy jobs and advancing decarbonization and biodiversity," and "ensuring sustainable and inclusive trade." However, the initiative does not mention free trade, and critics are correct to point out that it amounts to an attempt to update the social contract between governments. What the region truly needs, however, is a concerted effort to allow a much greater degree of commercial interaction between the people of the Americas. Such an effort requires reducing tariffs, increasing market access, and promoting genuinely free trade across the hemisphere.

U.S. Policy toward Cuba

During the past decade, the United States has enacted considerable changes in its policy toward Cuba, but their economic impact has been largely symbolic. American tourists were allowed to travel to the island regularly on commercial airlines, cruise ships, and ferries. Remittances also increased considerably as limits were lifted. These were steps in the right direction, since curbs on commercial and personal liberties likely harm ordinary Cubans as much as the communist regime itself. Besides, for well over half a century, the embargo has served as one of the Cuban regime's main tools of propaganda, allowing it to pose as a victim of American aggression. However, as William Leogrande of American University writes, the reforms have left "the core of the economic embargo . . . intact," since only pharmaceutical and telecom companies can enter joint ventures with the Cuban state, while U.S. exports are "still limited to agricultural, medical, and some consumer goods."

Politically, recognizing and legitimizing Cuba's dictatorship turned out to be mistaken and harmful, especially as the communist regime carried out a de facto takeover of Venezuela. It was also a mistake to end the so-called wet foot, dry foot policy, which allowed Cuban refugees who reached U.S. soil to remain in the country and obtain green cards. This measure eliminated a valuable escape route from repression. So, too, did the end of the Cuban Medical Professional Parole Program, which allowed the Cuban health care professionals who are sent abroad on forced labor assignments to defect to U.S. embassies and consulates. These programs should be reinstated.

The United States should build on what the two previous administrations got right while avoiding the mistakes of each. Policymakers should undo all commercial and travel restrictions and allow as much free trade as possible with Cuban citizens. Washington should also avoid any public embrace of the Cuban dictatorship, which should not mean engaging in hostilities. The approach should be simple: oppose, pressure, and denounce the Cuban dictatorship—but allow American commerce, tourism, and money transfers to benefit ordinary Cubans.

Currencies

One sure way to bring economic benefits to the Latin American population is an increased use of the U.S. dollar. In Ecuador, a perceived threat to the country's dollarization was likely an important factor in the presidential elections of 2021, when voters rejected a Rafael Correa–backed candidate and chose the pro-market Guillermo Lasso instead. Dollarized Panama, which has had the highest GDP per capita growth in Latin America during the past several decades, has not swung to political extremes since the return of democracy in 1989.

As Ecuadoreans, Panamanians, and others can attest, full dollarization is a clear safeguard against the type of inflationary chaos that has become prevalent in Venezuela and Argentina. Dollarized countries, in fact, are the region's best performers in staving off inflation, both in the long term and during the current, post-COVID-19 inflationary bout. Contrary to what dollarization's opponents claimed, in fact, higher inflation levels in the United States have not translated into equal price increases in the dollarized nations of Latin America, a factor that is rarely mentioned in the financial press.

Even less discussed is the fact that, in countries that have managed to keep inflation under relative control, dollarization—or dollar parity—also protects citizens' savings from strong, chronic bouts of currency devaluation. In fact, a sharp devaluation of the local currency against the dollar is a common but underappreciated factor of social unrest in nations that have recently turned to the hard left or may be about to do so. At the time of writing, the Peruvian sol and the Mexican peso had, respectively, lost 69 percent and 66 percent of their value against the dollar in the decade since May 2012. Meanwhile, currency devaluation in Brazil, Colombia, and Chile ranged between 38 and 57 percent during the same period.

Certainly, more governments should consider the option to dollarize as inflation returns to the region. After two decades under relative control, inflation contributes yet again to high levels of poverty, inequality, and economic instability, bringing to mind the region's seven episodes of hyperinflation from the 1970s through the 1990s. In Latin American countries with weak currencies, dollarization would curtail inflation, end currency risk, reduce interest rates, and help stimulate investment and growth. The United States should neither discourage nor encourage dollarization, but rather facilitate the process where it occurs. That strategy may mean sharing the dollar's seigniorage—the profit that derives from printing currency—with countries that decide to dollarize. In that way, the United States would neither gain nor lose money as a result of another country's decision to dollarize, but the dollarizing country might more easily dollarize if it could still earn seigniorage from the currency it uses.

Tech and Capital Markets: Positive Developments

Amid Latin America's difficulties, positive signs can be found in Uruguay and in the Latin American technology sector. During the COVID-19 pandemic, Luis Lacalle Pou, Uruguay's president, rejected the call for wealth taxes, kept businesses open, and defended individuals and entrepreneurs, not the central government, as the drivers of economic growth and progress. In recent years, there has been an impressive rise of technology startups in Latin America valued at more than $1 billion in market capitalization—including Uruguay's own dLocal, a Nasdaq-listed "unicorn."

By the end of 2021, Latin American entrepreneurs had produced 34 unicorns. Several of them operate in the financial technology sector, where they are disrupting many of the region's banking oligopolies by offering customers better services at lower prices. Much of the investment in these companies, most of which are based in Brazil, comes from American venture capitalists and VC firms, such as Y Combinator. Also, U.S. technology companies have intensified their hiring of staff in Latin America as the postpandemic, remote work revolution increases its pace. In February 2022, Bloomberg reported a 156 percent increase in "the number of foreign companies hiring from Latin America, the most of any world region, with software engineers leading the recruiting rally." These initiatives are proving that capital markets and private businesses are far more successful at creating positive change in Latin America than U.S. foreign aid and other government programs. As such, legislators should favor actions that facilitate U.S. trade and investment in Latin America over state-led endeavors.

End the Hemispheric War on Drugs

Washington should take concrete steps to end its destructive war on drugs in the region, which works at cross-purposes with important U.S. policy priorities. In drug-source and transit countries, such as Colombia, Mexico, and the Central American and Caribbean nations, the drug war is fueling corruption and violence, undermining the rule of law, and otherwise debilitating the institutions of civil society. According to 2020 figures published by the United Nations Office on Drugs and Crime, 8 of the 10 countries with the highest intentional homicide rates in the world were located precisely along the cocaine route from the Andes to the United States. These include Central American transit countries (El Salvador, Honduras, and Belize) and the island nations that serve as jumping points along the transit routes to the U.S. mainland. In Mexico, drug violence claimed 125,000 to 150,000 lives between 2006 and 2018.

The effect of the U.S.-led war on drugs south of the border has been imperceptible in the United States, but its consequences in Latin America are completely at odds with Washington's stated goal of encouraging free markets and civil society. As stated earlier, proceeding with federal marijuana legalization and permitting imports of the drug from Latin America would be a good beginning. (See "The International War on Drugs.")

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—Prepared by Daniel Raisbeck