

# Opportunities for U.S. Engagement in Latin America

Prepared statement by

**Shannon K. O’Neil**

*Nelson and David Rockefeller Senior Fellow for Latin America Studies*

*Director of the Civil Society, Markets, and Democracy Program*

*Council on Foreign Relations*

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## Hearing on Political and Economic Developments in Latin America and Opportunities for U.S. Engagement

Chairman Corker, Ranking Member Cardin, and Members of the Committee: Thank you for the invitation to testify today. I am grateful for the Committee’s interest in Latin America and am pleased to have this opportunity to discuss U.S. opportunities in the region. As always, I am eager to hear your advice and counsel.

As the United States grapples with extremism and authoritarianism abroad, Latin America is largely a good news story. The region has changed dramatically over the past few decades, mostly for the better.

Today the region is overwhelmingly democratic. Authoritarian rule is mostly relegated to the past, replaced by competitive parties, vibrant civil societies, and institutional checks and balances.

Latin America is home to an increasing number of market-friendly economies with close ties to the United States. Over the last twenty-five years trade with the region outpaced that with the rest of the world, as U.S. exports to Latin America jumped sevenfold. These nations now buy over a quarter of all U.S. exports, supporting tens of millions of jobs here at home. Many of our products are bought by the region's middle class, which added over 100 million members during the last decade's economic prosperity. In South America, this socioeconomic center comprises a near majority of the continent's 400 million citizens. Latin America is also resource rich, containing 20 percent of the world's oil reserves, as well as numerous other commodities.

Finally, the region largely shares U.S. values, providing many current and potential allies for the United States when negotiating complicated global issues in multilateral forums, including financial architecture, climate change, and transnational organized crime. Recent changes, from the normalization of U.S.-Cuba relations to the election of Mauricio Macri in Argentina, further the potential for positive shifts in bilateral and regional relations.

There are, of course, real challenges for the Americas. It remains one of the most violent regions in the world, with homicide rates three times the global average. Robberies, extortion, kidnappings, and sexual assault are all too common. Insecurity has direct reverberations for the United States, as it is one of the driving factors behind the wave of unaccompanied minors and others fleeing Central America.

Latin American growth has slowed with China's and with the larger commodity bust, threatening to send many from the new middle class back into poverty. In the boom years several governments overspent, aggravating their economic challenges today. These nations largely failed to use the commodity largesse to improve the quality of education, boost competitiveness, or diversify their economies. Bad economics at times dovetailed with bad politics and the erosion of democracy, particularly in Venezuela.

In the wake of the economic downturn, the region has seen a proliferation of corruption scandals. In Guatemala, investigations into government kickbacks led to the downfall of the president and vice president. In Brazil, the Petrobras scandal has sent several prominent politicians, public officials, and

business leaders to jail. This prosecutorial activism and judicial independence is a welcome juxtaposition to Brazil's current economic recession and political impeachment crisis. Investigations into corruption cases in Argentina, Chile, Mexico, and Peru have yet to show similar results (though many of these investigations are ongoing).

These corruption revelations can undermine government credibility, particularly when not followed by prosecutions and convictions. According to public opinion poll *Latinóbarometro*, Latin Americans rank corruption one of the region's biggest challenges.<sup>i</sup> Still the wave of cases reveal significant advances in the region: the widespread passage of freedom of information acts, and a move toward greater public transparency and press freedoms. It reflects an increasingly active civil society, and the rise in many countries of a true democratic citizenry.

The United States has supported some of Latin America's corruption investigations and prosecutions, for instance partially funding Guatemala's UN-backed independent investigatory body, the International Commission Against Impunity in Guatemala (CICIG), and at times providing information to investigators and prosecutors building domestic cases against wrongdoing. It also has helped fund a slow and steady process of reforming law enforcement and justice in Mexico through the Mérida Initiative and in Central America through the Central America Regional Security Initiative (CARSI). The recently approved \$750 million for the Alliance for Prosperity incorporates programs to improve transparency and accountability, and envisions new mechanisms to combat corruption.

As the United States looks to Latin America, there are important roles it can play to bolster and build upon these many positive trends. It should deepen engagement with its immediate neighbors, strengthening North America. It should prioritize anticorruption efforts within the larger assistance programs to the region. And it should take advantage of conducive changes to further bilateral and multilateral relations in the Western Hemisphere.

## **Start With North America**

Any set of U.S.-Latin America policy priorities should start with North America. Sharing 7,500 miles of peaceful borders, Canada and Mexico now play vital roles in U.S. stability, security, and prosperity.

North America is a global economic powerhouse, home to three democracies and almost five hundred million people. Totaling over \$20 trillion, their combined economies account for over a quarter of global gross domestic product (GDP).

Because of geography, markets, and the choices of millions of individuals and thousands of companies, North America has become one of the most integrated and interdependent regions in the world. Regional trade of over \$1.2 trillion in 2014 makes the United States, Canada, and Mexico each other's most important commercial partners. Today, the United States exports more than four times as much to Mexico and Canada as it does to China and twice as much as to the European Union, supporting millions of jobs. The type of trade also differs due to the depth of North America's supply chains. A study by the National Bureau of Economic Research found that, on average, 40 percent of the value of products imported from Mexico and 25 percent of those from Canada actually come from the United States; the comparable input percentage with the rest of the world is 4 percent.<sup>ii</sup> This means that of the \$294 billion in goods that the United States imported from Mexico in 2014, some \$118 billion of the value was created in the United States; for the \$348 billion that the United States imported from Canada, the value created in the United States was \$87 billion. In comparison, less than \$20 billion of the \$467 billion of U.S. imports from China came from U.S. workers.

Facilitating and deepening this integration and partnership will increase competitiveness, standards of living, and ultimately the ability to shape world affairs for generations to come. Given the bedrock nature of these relations, Congress should push forward the following policies:

- Confirm an ambassador to Mexico. The several months-long absence of a top in-country diplomat has slowed the resolution of complex problems, limited the ability to take advantage of mutual

opportunities, and hampered U.S. national interests. Roberta Jacobson is a talented individual and consummate professional with deep knowledge of the bilateral relationship. She will ably serve to further relations if given the chance.

- Pass the Trans-Pacific Partnership (TPP). The trade agreement will benefit many Western Hemisphere nations, including our North American partners. Its passage is important to maintain and further the competitiveness of the North American production platform, and to strengthen U.S. geopolitical leadership regionally and globally.
- Fund border infrastructure. Today there are many physical barriers at the border. Investment in infrastructure lags far behind the increased flows of people, cars, trucks, and goods, hindering the competitiveness of North America as a region. Congress has an important role to play in making infrastructure investment a priority and passing funding legislation for the auxiliary roads, rail infrastructure, bridges, airports, and ports of entry that enable cross-border flows and connect them to the larger U.S. economy. In addition, it should support the expansion of successful preclearance programs to expedite the movement of trusted goods and travelers across borders.
- Reduce regulatory and bureaucratic hurdles to trade. Rules of origin, non-tariff barriers, and multiple customs filings slow or impede regional trade. The U.S. government, working closely with the private sector, should review and revise NAFTA's rules of origin provisions to lower the cost for companies operating in the region. Congress can also push to speed current efforts to reduce expensive and often trivial divergences in regulations, through the U.S.-Mexico High-Level Regulatory Council and the U.S.-Canada Regulatory Cooperation Council. It can encourage accelerating plans to introduce a North American "single window" customs system that eliminates multiple filings. Together these changes would streamline regional commerce further, benefiting producers and workers in all three nations.
- Strengthen continental energy infrastructure. From gas and oil pipelines to electricity grids, deeper integration of cross-border infrastructure would make supply more stable and resilient, increasing

U.S. energy security. Recent reforms in Mexico opening the sector to private investment enhance the possibilities. Congress can help fund these infrastructure investments, and call for speeding the presidential permitting process.

### **Prioritize Anticorruption and Rule of Law**

Latin America's fundamental challenge today is weak rule of law. It erodes public trust, feeds violence, limits investments, and enables corruption.

Corruption consumes tens if not hundreds of billions of dollars each year throughout the hemisphere. The prevalence of widespread graft discourages entrepreneurship in favor of rent-seeking. And its perverse incentives for public spending lead to underfunding of education, health care, and other goods that underpin the human-capital building vital for creating competitive twenty-first century economies and societies. Recognizing these threats, over the last several years U.S. security collaboration and assistance in the region broadened from a concentration on drug eradication and interdiction to efforts to enhance citizen security and strengthen rule of law more generally.

These shifts in U.S. policy mirror homegrown efforts in many Latin American countries by courageous prosecutors and judges, policy reformers, and civil society advocates to change their polities and societies for the better. The U.S. Executive Branch and Congress should look for opportunities to bolster the changes underway, working with local reformers in and out of public office to hold governments accountable.

- Make anticorruption a consistent element of U.S. foreign policy in the Western Hemisphere. Congress should call on the U.S. Department of State and other U.S. administration officials to consistently emphasize anticorruption as a policy priority in Latin America. Congress should also encourage the Department of State to better coordinate with counterparts in other agencies with the tools to investigate corruption, bribery, and money laundering, and to work with these agencies in expanding its efforts to engage with governments working to address corruption and improve rule of law.

- Urge the active use of the Global Magnitsky Human Rights Accountability Act in Latin America. The U.S. House of Representatives should pass this important piece of legislation. Once enacted, Congress should urge the Executive, guided by the Department of State, to actively use this new foreign policy tool, denying and revoking U.S. entry visas and imposing property sanctions for corrupt Latin American officials.
- Expand anticorruption and rule of law programming in Latin America. Congress should champion and fund efforts to improve judicial capacity, train law enforcement officials, strengthen and professionalize independent monitoring and anticorruption agencies, and support civil society-led anticorruption efforts. Building on the success of CICIG, Congress should back the OAS-funded Support Mission against Corruption and Impunity in Honduras (MACCIH), and the potential creation of other independent investigatory or prosecutorial bodies where needed to address deep-seated graft.
- Support Mexico's judicial reforms. With Mexico, Congress should help fund the ongoing transition to an accusatorial justice system through the Mérida Initiative and other programs. Though scheduled to occur by June 2016, implementing and improving the quality of this new system will require considerable effort and resources over the next several years.
- Develop anticorruption indicators for future foreign assistance programs. Congress could include indicators similar to those used by the Millennium Challenge Corporation (MCC) to ensure that foreign assistance programs in Latin America consider country-level corruption when determining funding, and when structuring development and security programs. As with human right protections, Congress could withhold a percentage of funds when violations of these measures occur.

## **Seek Opportunities for Greater Bilateral and Regional Cooperation**

Recent national, regional, and global changes provide openings for greater cooperation with many nations in Latin America.

In part this shift comes from new leadership. Argentina's new government, with its more pragmatic economic and foreign policies, should enable warmer U.S.-Argentine relations. The recent election of Luis Almagro as secretary general of the Organization of American States (OAS) is also an opportunity to revive the at times moribund multilateral institution. The turn away by these and other regional leaders from their populist colleagues raises the possibility of constructing new twenty-first-century partnerships in the Americas, bringing the U.S. significant benefits.

The normalization of U.S. relations with Cuba furthers this potential. The change in policy and tone removed a long-standing controversy in U.S.-Latin American relations. And it has opened an opportunity for current and potential allies in the region to speak out against democratic backsliding and other human rights violations. The change has at times empowered friends, new and old, to call out abuses. These include public statements by the secretary general of OAS, a letter from legislators from Peru, Colombia, Brazil, Chile, Costa Rica, as well as the United States, urging President Maduro to allow international observers for the December legislative election, and calls from Argentina to free political prisoners in Venezuela and repair its democratic deficit.

To take advantage of these initial welcome shifts, the United States should:

- Revive U.S-Argentine relations. After weakening under former president Cristina Fernández de Kirchner, the U.S. Congress and Executive should look for selective ways to work with the new Mauricio Macri government. These include supporting Argentina if and when it chooses to reengage with the International Monetary Fund (IMF) and other multilateral institutions, and once the nation resolves its legal disputes, its reentry into international credit markets. At that point the Executive should restore access to Export-Import Bank financing for U.S. exporters to Argentina.

- Support Colombia’s transition to democratic peace after decades of war. This long-standing U.S. ally may be entering a new phase as its decades-long conflict with the FARC (the Revolutionary Armed Forces of Colombia) comes to a negotiated end. Congress should provide funding to help implement the peace deal.
- Support the Pacific Alliance. The regional economic and diplomatic block includes like-minded countries and economies; its expansion and deepening would benefit the United States (which currently sits as an observer to the group). Of the founding members—Mexico, Colombia, Peru, and Chile—all but Colombia are members of the TPP, and that nation has expressed interest in joining as soon as possible. The United States should facilitate this process.
- Reengage with Brazil by strengthening economic ties. To recover from its current severe recession, Brazil may implement structural reforms and begin opening its economy to the world. If and when this occurs, the United States can encourage the shift, negotiating on bilateral tax issues to eliminate double taxation and as well as advancing agreements on trade in services (including education, health, transportation, insurance, and financial and other business services) between the two nations. Both would stimulate investment and sales, benefiting U.S. and Brazilian companies alike.

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<sup>i</sup> Latinóbarometro, “La Confianza En América Latina, 1995-2015,” Latinóbarometro, accessed January 15, 2016, <http://www.latinobarometro.org/lat.jsp>.

<sup>ii</sup> Robert Koopman, William Powers, Zhi Wang, and Shang-Jin Wei, “Give Credit Where Credit is Due: Tracing Value Added In Global Production Chains,” National Bureau of Economic Research, p. 38, September 2010, <http://www.nber.org/papers/w16426.pdf>.